FORCE PROTECTION INC
Form 10-K
March 09, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission file number 001-33253

FORCE PROTECTION, INC.

(Exact name of Registrant as Specified in Its Charter)

Nevada (State or Other Jurisdiction of Incorporation or Organization)	**84-1383888** (I.R.S. Employer Identification No.)
1520 Old Trolley Road **Summerville, South Carolina** (Address of registrant's principal executive offices)	**29485** (Zip Code)

Registrant's telephone number, including area code: **(843) 574-7001**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registration was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The aggregate market value of the common equity held by non-affiliates of the registrant on June 30, 2010, computed by reference to the closing price for such stock on the Nasdaq Capital Market on such date, was approximately $284,352,000.

The number of shares outstanding of the registrant's common stock as of February 25, 2011 was 70,573,916 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2011 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

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PART I

ITEM 1. BUSINESS

The Company

General

Force Protection, Inc. provides survivability solutions to support the armed forces of the United States (U.S.) and its allies. We design, manufacture, test, deliver and support our blast- and ballistic-protected products to increase survivability for the users of our products. Currently, we have one segment of operations. We believe our specialty vehicles, including the Buffalo, Cougar and Ocelot, are at the forefront of blast- and ballistic-protected technology. These vehicles are designed specifically for reconnaissance and urban operations and to protect their occupants from landmines, hostile fire and improvised explosive devices (IEDs, commonly referred to as roadside bombs). We are a key provider of the U.S. military's Mine Resistant Ambush Protected (MRAP) vehicle program and have sold and delivered over 3,000 vehicles under this program. We also provide our Cougar and Buffalo mine-protected vehicles to several foreign customers, including the United Kingdom Ministry of Defence (U.K. MoD) which has purchased three variants of our Cougar vehicle as well as a U.K.-specific variant of the Buffalo. The U.K. MoD is also under contract to purchase 200 Ocelots, our next-generation vehicle, with deliveries beginning in 2011. Complementing these efforts, we are developing and marketing a new vehicle platform, the Joint All-Terrain Modular Mobility Asset (JAMMA), which provides increased modularity, transportability, speed and mobility. Across all vehicle programs we have sold approximately 4,600 vehicles since 2005. Supporting our vehicle design, development and production initiatives, we develop, manufacture, test, deliver and support products and services aimed at further enhancing the survivability of our users against additional threats. In addition, we provide long-term life cycle support services for our vehicles that involve development of technical data packages, supply of spares, field and depot maintenance activities, assignment of skilled field service representatives (FSRs), and related training programs. Our services are based on establishing and maintaining long-term relationships with the U.S. government and foreign military users.

Company History

We were organized under the laws of the State of Colorado in November 1996 as Boulder Capital Opportunities III, Inc. In June 2002, we acquired a 90% interest in Technical Solutions Group, Inc., a Nevada corporation founded in 1997 as a development stage manufacturer of blast- and ballistic-protected vehicles based in Charleston, South Carolina. We subsequently increased our ownership interest in Technical Solutions Group, Inc. to 100%.

In September 2003, we changed our name to "Force Protection, Inc." to reflect our primary focus on designing and manufacturing protected and armored vehicles. In January 2005, we reincorporated from the State of Colorado to the State of Nevada. We became listed on the Nasdaq Capital Market in January 2007. Our corporate headquarters are located in Summerville, South Carolina.

In 2009, we formed Integrated Survivability Technologies Limited (IST), an England and Wales company that is a joint venture between Force Protection Europe Limited, a subsidiary of Force Protection Industries, Inc., and NP Aerospace Limited, a subsidiary of The Morgan Crucible Company plc. Pursuant to the terms of the joint venture, IST acts as the prime contractor for vehicles and related total life cycle support awarded by the U.K. MoD to ensure that this customer has a single point of contact for its Wolfhound, Mastiff and Ridgback vehicles. We account for this joint venture as an equity-method investment. In September 2009, we formed Force Protection Australasia Pty Ltd, an Australian company to pursue market opportunities in Australia and Asia. Force Protection Australasia is a wholly owned subsidiary of Force Protection Europe Limited.

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Our Products

All of our products are aimed at providing the highest level of blast- and ballistic-protection to personnel operating in areas posing threats of attack. Since the early stages of Operation Iraqi Freedom and Operation Enduring Freedom, the U.S. and coalition militaries have sought a wheeled vehicle approach that balances three potentially competing operational or mission dynamics: (1) protection, which refers to the level of crew survivability against blast- and ballistic-attack, (2) payload, which refers to the load that the vehicles can carry on board the platform, measured in units, such as the number of crew members and/or cargo weight, and (3) performance, which refers to a vehicle's mobility, sustainability, ability to provide technological solutions to mission requirements, and its suitability for transportation in existing military aircraft and ships.

We currently offer five vehicle platforms aimed at fulfilling different operational or mission requirements: Buffalo, Cougar, Cheetah, Ocelot and JAMMA.

Buffalo. The Buffalo Mine Protected Clearance Vehicle is our largest vehicle and is the centerpiece for route clearance missions. The Buffalo is a blast- and ballistic-protected vehicle designed to keep the explosive ordnance disposal crew safe. The protection and capabilities built into the Buffalo provide the crew an ability to unearth and interrogate mines and IEDs without dismounting and provide for improved survivability on the way to completing their mission. The Buffalo is used by the U.S. and several international customers. The Buffalo A2 variant has been designated as a Program of Record for the U.S. Army and is currently undergoing a series of milestone reviews under the direction of the Product Manager Assured Mobility Systems at the U.S. TACOM, previously known as the "Tank-automotive and Armaments Command." Recent enhancements to the Buffalo that have become part of its Program of Record configuration include upgraded transmission, integrated air digger design, enlarged roof hatches, neutral-tow settings, two automated fire extinguishing systems, improved heating and cooling system, and upgraded shocks.

Cougar. The Cougar is a family of medium-sized blast- and ballistic-protected vehicles that are supplied in 4-wheeled and 6-wheeled variants and in a variety of configurations for the wide range of missions performed by our customers. The operational applications of the Cougar include troop transport, command and control, route reconnaissance, convoy escort, and casualty evacuation capabilities. The U.S. military and several international customers use the Cougar and/or Cougar variants. We are developing, in partnership with our U.S. and international users, long-term life cycle plans for our fielded fleet of vehicles.

Cougar variants:

Cougar Mastiff and Ridgback. The Cougar Mastiff and Ridgback vehicles are part of the Cougar family of vehicles being used by the U.K. MoD through the U.S. Department of Defense (DoD) Foreign Military Sales (FMS) program. The Cougar Mastiff is a 6-wheeled vehicle with base protection similar to all Cougars and is integrated with additional interior and exterior armor as well as a mission integration package in the U.K. The Cougar Ridgback is a smaller vehicle similar to the Cougar Mastiff that operates where mission conditions require a 4-wheeled platform. Similar to the Mastiff, the final integration of the vehicle occurs in the U.K. where it receives additional armor and a mission integration package.

Cougar Wolfhound Tactical Support Vehicle. The Cougar Wolfhound Tactical Support Vehicle (TSV) was a new configuration in 2009 delivered to the U.K. MoD through IST. It is a 6-wheeled vehicle based on the Cougar Mastiff design with a load bed incorporated into the rear of the vehicle to carry North Atlantic Treaty Organization standard pallets and any other cargo. This load bed design feature allows the Cougar Wolfhound TSV to be easily reconfigured for multiple missions.

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Cougar International Light Armored Vehicle, previously known as the Iraqi Light Armored Vehicle. The Cougar International Light Armored Vehicle (ILAV) is a 4-wheeled vehicle that can carry ten passengers. Numerous vehicles have been produced to date. During 2010, we sold 53 second generation ILAVs, which consist of improved versions including the basic ILAV troop carrier, a route clearance variant with a robotic arm, and an explosive ordnance disposal configuration.

Cheetah. The Cheetah is a lighter weight 4-wheeled blast- and ballistic-protected vehicle. The Cheetah provides mobility performance levels similar to that of a lightweight vehicle, while providing protection levels similar to that of our heavier Cougar fleet and payload levels substantially higher than that of the wheeled vehicle fleet currently available to the military. The base Cheetah platform was used to develop the MRAP All Terrain Vehicle (M-ATV). The M-ATV variant Cheetah was not selected for follow-on production by the U.S. military, but is being offered to international customers with certain modifications, including: revised seating configuration and modifications to the hull, hood, and grill.

Ocelot. Building on our successful experience of supplying blast- and ballistic-protected vehicles, we worked with Ricardo U.K. Limited of the United Kingdom to develop a more lightweight and modular vehicle with MRAP-like survivability qualities. Integrated with next generation V-hull technology and composite materials that help provide similar blast protection levels as vehicles three times heavier, the approximate 16,500-pound Ocelot allows troops to carry out a wide range of activities that restrict larger vehicles, including operating in mountainous regions, crossing narrow bridges, and maneuvering effectively in urban environments. We entered into a contract with the U.K. MoD in November 2010 for the production of 200 Ocelot vehicles for the Light Protected Patrol Vehicle (LPPV) program. Deliveries are scheduled to begin in the second half of 2011, and we are pursuing the opportunity to secure follow-on orders for additional vehicles from the U.K. MoD. The Ocelot has also been down-selected for the Australian government's Protected Mobility Vehicle-Light program (Land 121), which requires delivery of approximately 1,300 fully-integrated vehicles and trailers, as well as related long-term support. Two prototype vehicles were delivered to the Land 121 program office in February 2011 for further testing and evaluation.

Joint All-Terrain Modular Mobility Asset (JAMMA). The JAMMA is a light-weight, high-performance, and high-speed all-terrain vehicle that is certified for transport inside a V-22 Osprey, as well as CH-47 and CH-53 helicopters, and features an attachment system to accommodate threat-specific armor. The JAMMA is designed to be an air-droppable, internally-transportable, surface recovery vehicle capable of maneuvering over adverse terrain in order to search for and recover isolated personnel and equipment. The JAMMA also is designed to transport recovery teams and recovered ambulatory or wounded personnel from isolated high threat areas to defendable locations for extraction by aircraft or self-recovery to a final, secure destination. The JAMMA was specifically developed to meet the needs of Special Operations Forces for programs such as the Special Operations Command's Light Motor Vehicle program, and to support Para Rescue Operations including an upcoming requirement for the U.S. Air Force's Guardian Angel Air-Deployable Rescue Vehicle (GAARV) program. Given its unique capabilities, we expect the JAMMA will have application for a multitude of special operations uses worldwide beyond the GAARV program.

Modernization. Beginning in 2009, the Cougar was upgraded with an Independent Suspension System (ISS) providing it with the off-road capability to deal with more rugged terrain encountered by our customers. This modernization effort consisted of the supply and installation of ISS on most of the U.S. DoD's Cougar fleet for deployment to Afghanistan, which continued throughout 2010 and is expected to conclude in 2011. In addition to ISS, we continue to work with our customers on additional vehicle modernization for continued service. For example, during 2010, we began to upgrade the U.S. Cougar fleet with enhanced fire extinguishment systems, increased power generation, enhanced seating, and other improvements. Through the next block of capability insertions, we expect to offer items such as improved interior and window armor, and enhanced doors.

Vehicle Armor Enhancements. We offer external ballistic protection modules that provide protection from explosively formed projectiles (EFPs) and other IEDs. Many of these solutions have been tested and validated through the U.S. Army Aberdeen test center. Our external ballistic protection module package can be readily installed and removed in the field, allowing users to "scale" protection levels in response to ever changing enemy threats. During 2010, we validated a new lighter armor configuration and our process for rapidly developing new configurations. This allows us to offer custom solutions for a variety of threats, design constraints and cost considerations. These configurations can be adapted to fit any vehicle. We are continuing research in the field of EFP protection, as well as developing additional products to protect against rocket-propelled grenades, and to mitigate blast effects on other military vehicles.

Our Services

We provide spares and sustainment services for our vehicles that involve development of technical data packages, supply of spares, field and depot maintenance activities, assignment of FSRs to units that are equipped with our vehicles, and related programs.

Our services emphasize an early focus on ensuring that our vehicles are designed up front as a "total life cycle package" with a long-term logistics commitment that involves spare parts, technical publications, as well as a portfolio of field services such as technical representatives, field mechanics, and operator and maintenance training. We deliver and manage the fundamental elements of logistics throughout our platform life cycles. We have established a systems approach that places equal emphasis on cost, schedule, performance, and on operational availability based on enabling supportability programs. We look to partner with customers to develop, produce, field, sustain and recapitalize our vehicles. Our goals are to ensure that we provide effective, efficient, reliable, supportable, and maintainable systems, while minimizing total life cycle cost.

We have also developed a number of Battle Damage Assessment & Repair kit solutions and are providing these kits to our customer, which will help ensure higher readiness rates through quicker repair turnaround times.

We offer ongoing services in three areas: logistics engineering, acquisition logistics and operational logistics. Our upgrades and system improvements are designed to enhance ease of use as well as vehicle longevity.

Expanded Services.

Kuwait. The MRAP Support Facility in Kuwait has been designated by the MRAP Joint Program Office as a long-term maintenance facility. As military forces were drawn down in Iraq, MRAPs were transferred to Afghanistan. These vehicles were first moved to Kuwait to be equipped with ISS, restored to full mission capable maintenance posture, and retrofitted for enhanced capabilities. In 2010, we continued installation of ISS on Cougars at the Kuwait facility. Work at the facility includes performing light manufacturing operations on our fleet of vehicles and other manufacturers' MRAPs, such as modernization, repair and maintenance.

Afghanistan. The Afghanistan military bases have rapidly expanded to support the growing numbers of soldiers in-theater as part of the ongoing troop surge that began in 2010. As such, the number of airbases and forward-operating bases that require MRAP support is growing, and we responded by expanding our operational footprint beyond the Kuwait facility to include a number of bases in Afghanistan. At these locations, we provide service and support to Cougars and certain other manufacturers' MRAP vehicles, including installation of ISS kits.

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Training. During 2010, we continued to provide training, including advanced off-road senior driver certification. We have multiple training contracts that we expect to fulfill during 2011 for U.S. government customers (including FMS). This training includes Operator New Equipment Training and Field Level Maintenance New Equipment Training.

Logistics Data Services. To proactively maintain large fleets of vehicles, military units must have accurate situational awareness of the health of their fleets. We provide useful, near real-time reporting through our network of FSRs located across theater. To support these efforts, we utilize proprietary software that leverages data input from theater FSRs to enable key operational readiness decisions and provide information about future upgrades. This allows senior military logisticians to be more effective by providing a "real time" link between in-theater FSRs, the customer, and our Company to improve fleet availability, spares, repairs and overall equipment management.

Field Service Representatives (FSRs). As of December 31, 2010, we had delivered support via a deployed base of approximately 440 field trainers and service representatives in the U.S and internationally. Our FSRs are skilled vehicle technicians and mechanics who are sought after by the U.S. and several international customers. They provide an expanded set of technical skills to train, coach and teach military mechanics, as well as perform universal maintenance on all MRAPs. They also provide useful, real-time reporting from theater through channels to enable operational readiness.

Spare Parts. We have established a supply chain for Buffalos and Cougars, including our vehicle fleets with foreign militaries. As the U.S. DoD transitions spare part responsibilities to the Defense Logistics Agency, we are looking to establish long-term contracts with the Defense Systems Command Columbus in order to remain a major spares provider for our vehicles.

Major Customers

In 2010, our business continued to trend from vehicle manufacturing to substantial life cycle support, and our commercial-centric endeavors began to expand based on the opportunities provided by our Ocelot platform. In 2011, we plan to increase research and development into areas where our work on vehicle survivability solutions could benefit other original equipment manufacturers (OEMs) and potential customers. We will continue to manufacture our Buffalo and Cougar vehicles and utilize partners for excess demands or substantial contract awards.

In 2009, we began direct foreign government sales, primarily to the U.K. MoD through IST. See Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations,* in Part II of this Annual Report on Form 10-K for the number of vehicles sold for the years ended December 31, 2010, 2009 and 2008. We are still dependent on certain customers, primarily the U.S. government, including FMS, which accounted for 87% of our sales in 2010 and 90% of our sales in 2009.

Industry Overview and Force Protection Market Opportunity

General. The global war on terrorism, especially in Iraq and Afghanistan, has confirmed that IEDs, landmines, EFPs and rocket-propelled grenades pose a significant threat to coalition military personnel and civilians. These weapons have been used extensively by terrorists and insurgent groups in Iraq, Afghanistan and other areas. As such, we believe the world-wide market for blast- and ballistic-protected vehicles and other survivability solutions will remain at high levels for at least the next several years. In 2009, U.S. forces began drawing down from Iraq and this continued throughout 2010. In 2010, the troop surge of U.S. forces in Afghanistan began, which required additional MRAPs to support operations. While it is currently anticipated that the troop surge will end in 2011, we expect the commitment of U.S. combat forces in Afghanistan is probable until 2014.

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U.S. and international militaries are determining long-term roles for MRAPs. The future requirements for long-term life cycle logistics plans, as well as an important effort to return vehicles that come out of theater to optimal, pre-battle condition to ensure readiness for future conflicts (commonly referred to as "reset and recapitalization") is still to be determined. MRAPs can be placed into permanent military organizations for convoy security, route clearance, explosive ordnance disposal and casualty evacuation, or be placed into prepositioned storage roles for regional response, or be sold to foreign military customers.

Business Development and Program Management

Our future revenue streams for the next few years are mostly dependent on our ability to: (1) secure new vehicle sales, (2) provide FSR support to militaries deployed in Afghanistan, (3) work closely with our customers on vehicle engineering change proposals that enhance the survivability and operating characteristics of our current family of vehicles, and (4) capitalize on total life cycle support initiatives that center not only on vehicle modernization efforts but also on long-term reset and recapitalization initiatives, post-Afghanistan.

The Buffalo remains the centerpiece for route clearance missions, and has proven to be a valuable asset to a number of militaries world-wide. In addition to anticipated deliveries to the U.S. Army through 2013 as a Program of Record, we will pursue additional Buffalo sales to other branches of the U.S. military and other coalition forces. We also expect MRAPs will continue to be utilized over the long-term for specific mission requirements. We remain focused on selling new MRAP vehicles primarily to foreign customers, as well as pursuing larger opportunities, including the approximate 600 vehicle requirement in Canada for the Tactical Armored Patrol Vehicle program. In addition, we are developing new products and pursuing additional modernization programs designed to enhance the operating capabilities of our existing vehicles and those of other OEMs.

While we believe heavily-weighted vehicles will continue to be key long-term assets for militaries, it is anticipated that lighter-weight and more agile versions of highly-protected vehicles will become the centerpiece of many worldwide militaries' tactical-wheeled vehicle modernization strategy. This is consistent with what we are seeing in the United Kingdom with the LPPV program and in Australia with the Land 121 requirement, and we expect a similar strategy will be followed in the U.S. The Ocelot provides unprecedented levels of blast protection for a vehicle of its size and weight, and its modular design allows troops to carry out a wide range of tasks that restrict larger vehicles. We are aggressively pursuing opportunities in the U.S., as well as engaging in active discussions with a number of international military customers in addition to the United Kingdom and Australia. We also believe there are opportunities to develop and market variants of the base Ocelot configuration for applications beyond traditional military use, including homeland defense, border security, paramilitary, state and local municipality security, and others.

We will continue to prudently invest in new vehicle development that supports customers' specific program requirements. Given its unique capabilities and specific development for special operations requirements, including the GAARV program, we believe the JAMMA will be attractive to a number of customers worldwide.

We currently provide spares and sustainment services to the U.S. Marines Cougar fleet of vehicles. In support of Operation Enduring Freedom, in 2010, we expanded our operational footprint beyond our modernization facility in Kuwait to include forward operating bases in Afghanistan. Collectively, we have the majority of our FSRs deployed at these locations to support the need for ongoing service and sustainment, as well as installation of modernization products.

As part of the expected core fleet of certain militaries worldwide, customers are anticipated to seek ongoing improvements to MRAPs to promote the highest level of operational readiness. As an established provider of innovative MRAP technology solutions, we are investing in research, development and engineering efforts designed to ensure we remain at the forefront and continue to secure additional opportunities to enhance not only our vehicles, but those of other OEMs as well.

Concurrent with our efforts to enhance the operating characteristics of our vehicles and the vehicles of others, we are focused on securing additional long-term vehicle service and sustainment programs. We are pursuing the U.S. Army's Route Clearance Vehicle (RCV) MRAP Contractor Logistics Support Service program requirement for the maintenance of their thousands of related vehicles located in the Middle East. We also realize that as the conflict in Afghanistan comes to an end, there will be a need for extensive reset and recapitalization programs to ensure that RCV and MRAP vehicles that are currently in use will be preserved for possible future conflicts. We are planning to partner with other tactical-wheeled vehicle and related service providers in an effort to ensure that current vehicles are reset and reconfigured with the most capable operational and weapons systems available.

Research and Development

We continually seek to improve our technological leadership position through internal research, product development, licensing and acquisition of complementary technologies. We also seek to expand our research capabilities through ongoing education of our employees and investment in our testing facilities and instrumentation. We believe these investments in the knowledge of our employees, and the instrumentation to measure the effectiveness of various survivability solutions, will allow us to more rapidly develop and validate innovative new products that provide enhanced protection against evolving threats. Our strategy of testing early and often through the product development cycle to integrate blast resistance and other forms of survivability into the basic structure proved effective in the development of our Ocelot platform. We are continuing this approach for other vehicle platforms, and are also using the knowledge gained during the Ocelot program to develop survivability upgrade kits for existing vehicles.

For the years ended December 31, 2010, 2009 and 2008, we spent $23.4 million or 3.6% of net sales, $20.1 million or 2.1% of net sales, and $14.3 million or 1.1% of net sales, respectively, on research and development.

We are committed to product development and expect to continue our investment in this area. We believe that the continual development or acquisition of innovative new technologies will assist us in delivering the new products and services that are critical to our future success.

Raw Materials and Supplies

We are dependent on the availability of materials, parts and sub-assemblies from our suppliers and subcontractors. The most important raw materials required for our products are armored steel, milled steel, composites, major automotive components and ballistic glass. Several of our major automotive components are procured or subcontracted on a sole-source, or limited-source, basis with a number of domestic and non-U.S. companies. We have not experienced, and do not foresee, significant difficulties in obtaining the materials, components or supplies necessary for our business operations, although there is a potential for rapidly escalating steel, fuel and other raw material costs in fiscal 2011. Some suppliers may discontinue business due to tight credit conditions or the inability to either absorb cost increases or pass them on to their customers. We depend upon the ability of our suppliers and subcontractors to meet our specifications, standards and delivery schedules at anticipated costs. We maintain a qualification and performance surveillance system to control risks associated with such reliance on third parties, such as the failure of suppliers or subcontractors to meet their commitments.

No material portion of our business is considered to be seasonal. Various factors could affect the distribution of our sales between accounting periods, including the timing of government awards, the availability of government funding, product deliveries and customer acceptance.

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Production

We utilize proprietary technology to design and manufacture blast- and ballistic-protected vehicle passenger compartments that are designed to be capable of withstanding the explosive effects of most landmines, IEDs and other blast threats encountered in wars, insurgency and urban conflicts. We also use commercial automotive drive-trains and certain other components that can be repaired and maintained by traditional truck mechanics.

Our production workforce includes skilled and non-skilled labor such as certified welders, automotive mechanics, trained assemblers, material handlers and automotive painters. We maintain a staff of engineers to provide in-house engineering support and utilize various manufacturing approaches to increase efficiency and product quality. We also utilize partners and subcontractors to expand our capacity and capabilities to meet customer specifications, standards and delivery schedules.

Business Strategy

Our business strategy is focused on increasing shareholder value by providing survivability products and services that are responsive, innovative, high-quality and affordable. We intend to maintain and expand our current business as a leading supplier of survivability solutions, including protected vehicles, total life cycle support and other services, to the U.S. DoD, other U.S. government agencies, foreign governments, and domestic and international commercial customers. Our strategy is focused on growing balanced diverse revenues and earnings through organic growth, cost containment, and select business acquisitions, enabling us to grow the Company. Key objectives of the Company's business strategy include:

Perform Favorably on Contracts. We believe that favorable performance on our existing contracts is the foundation for successfully meeting our objective of growing by expanding Force Protection's prime, subcontractor and supplier roles both domestically and internationally. We believe that a prerequisite for growing and winning new business is to satisfy our existing customers with successful contract performance, including quality, schedule, cost, technical and other performance criteria. As such, we continuously reinforce our efforts to ensure superior contract performance to try to maintain our role as a long-term competitive, agile, responsive, innovative, forward-leaning and insightful defense contractor which strives to exceed customer expectations.

Capitalize on Our Current Business and Grow Sales Organically. We intend to focus our efforts on those business areas where we have expertise and competencies, including markets for protected vehicles and related total life cycle product support. We also intend to partner with other prime contractors and other OEMs to compete for select new business opportunities. We expect to identify additional opportunities to capitalize on our current customer relationships and leverage our core competencies, including blast- and ballistic-survivability sciences, to expand the scope of our products and services to existing and new customers. For example, given the Ocelot's unique operating characteristics as a light, modular, highly-protected and mobile platform, we expect this vehicle will provide us access to additional opportunities. We also intend to expand our markets and customers by participating in and competing for new programs and opportunities in several international countries. We are pursuing universal service roles to sustain the U.S. military's fleet of MRAPs and RCVs. We are also pursuing prime and tier-two roles to sustain Cougars and Buffalos for international customers. Finally, in partnership with U.S. and international users, we are developing long-term life cycle plans to include vehicle reset and recapitalization.

Invest in Research and Development and Introduce New Products. We intend to continue to align our internal investments in research and development, business development and capital expenditures to anticipate and proactively address customer requirements and priorities with our products and services. We also intend to leverage our competencies around survivability science to provide products

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and services on any vehicle platform and we intend to secure sales through the introduction of new vehicles, products and services with a focus on internal investment, collaboration with industry partners and research institutions, and licensing of technologies.

Expand Product Offerings and Diversify Business Mix. We intend to use our existing prime, subcontractor and supplier positions, which are leveraged by our internal research and development programs, to expand our product and service offerings by securing additional opportunities from our current and future customers. We expect to benefit from our position as a survivability solutions provider on select new contracts to expand into adjacent markets and to diversify our business mix in order to reduce our reliance on any single contract or market. Complementing these efforts, we are focused on supplementing our organic sales growth by selectively acquiring businesses that add new products, services, technologies, programs and/or customers to our existing businesses, while ensuring that they also provide attractive returns on investment.

Continuously Improve Our Cost Structure. We intend to continue to improve efficiency and reduce our direct contract costs and overhead costs, including general and administrative costs. Effective management of labor, material, subcontractor and other direct costs is a primary element of favorable contract performance. We believe continuous cost improvement will enable us to increase our competitiveness, expand our operating margin and selectively invest in new product development and other business development activities to organically grow sales.

Competitive Strengths and Positioning

We are subject to significant competition from companies that market and manufacture armored vehicles, as well as other companies that supply spare parts, survivability solutions, and sustainment for armored vehicles. The companies we compete against include large, multinational vehicle, defense and aerospace firms such as BAE Systems Land & Armaments, L.P., Textron Inc., Navistar Defense LLC, a subsidiary of Navistar International Corporation, Oshkosh Corporation, Mantech Services (U.K.) Ltd., Science Applications International Corporation, Thales, NP Aerospace and General Dynamics Land Systems. Some of these competitors have considerably greater financial, marketing and technological resources than we do.

We believe our competitive advantages include:

Survivability Performance. Our Buffalo and Cougar lines of blast- and ballistic-protected vehicles have been deployed with the U.S. and allied forces in Iraq and Afghanistan since as early as 2003. In addition, the Ocelot will begin to be delivered to the U.K. beginning in the second half of 2011 and ultimately deployed with U.K. forces in Afghanistan. The advanced design and engineering incorporated into our vehicles increases the survivability rate of vehicle occupants in conflict with a hostile force.

Sustainability. Our vehicles are designed to be sustainable. Ease of maintenance and expeditiously returning to combat are hallmarks of the design such that the vehicle can endure a blast event and be repaired quickly to return to the field. Repairs are made using common tools with little need for any specialized tooling. On-board diagnostics aid the maintainer in making quick repairs. Our vehicles are designed and constructed using common parts and off-the-shelf products, to the maximum extent possible without compromising survivability, to promote availability of spare parts and ease of repair. Additionally, the parts and materials selected for these vehicles have a proven history of reliability and availability over the life cycle of the vehicle. We continuously evaluate and enhance our support services for our customers' training, field support, and parts distribution needs.

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Adaptable Manufacturing Capabilities. Our domestic manufacturing facilities are structured to allow for the ability to adapt our operations to customer volume requirements. As such, together with key partner and subcontractor relationships, we are able to quickly adjust our production capabilities with minimal required capital investment to meet customer demands. For international vehicle programs, the current and expected trend is a requirement that manufacturing and supportability be located in the host country so as to support their local economies. We believe we have the flexibility to operate successfully in this environment by partnering with companies in host countries to support our manufacturing and support efforts.

Proprietary Technology and Commitment to Research and Development. Our proprietary designs derive from concepts that were initially developed outside the U.S. to protect vehicle occupants against the threat of landmines and unexploded ordnance. We continuously improve upon or supplement our proprietary designs through internally funded research, development and testing, as well as licensing technologies of others. We actively seek to protect our designs through intellectual property rights. We believe our focus in these areas enables us to remain flexible in our design processes and improve our vehicle sustainability and performance.

Anticipating and Responding to Customer Requirements. We were one of the first U.S.-based manufacturers of the current generation of blast- and ballistic-protected vehicles. Our expertise enables us to produce a range of vehicles that serve a variety of missions, and are capable of withstanding increasingly violent attacks from a constantly evolving threat. Buffalo, Cougar, and Cougar variants (Mastiff and Ridgback) have proven to be the core of our existing fleet of vehicles. With the Ocelot and JAMMA, we are expanding our vehicle offerings in response to customer demand. Capitalizing on our success of rapidly delivering fielded solutions, we continue to reduce our development cycles in anticipation of customer needs.

We have developed strong relationships with the U.S. Marine Corps, U.S. Army, and other U.S. military branches of service, as well as a number of foreign militaries. We believe that the strength of our customer base, coupled with the superior performance of our vehicles in the conflicts in Iraq and Afghanistan, is beneficial as we compete for future government contracts.

Field support to our largest customer, the U.S. DoD, is overseas at the MRAP Sustainment Facility in Kuwait and in a number of military bases in Afghanistan. At these bases, our personnel have overhauled hundreds of Cougar and other OEM vehicles that exited Iraq on the way to Afghanistan and they are providing additional enhancements while the vehicles are operating in Afghanistan. Additionally, we have FSRs deployed with all of our customers and they provide training and technical support for our vehicles. Our FSRs are deployed around the world and provide customer support twenty-four hours a day, 7 days a week to support troops in-theater.

Experienced Management Team. Our success is due in large part to the broad experience and knowledge of our management team and key personnel. Our executive management team has significant financial, leadership, defense and military experience, expertise in survivability sciences, automotive engineering, manufacturing and government contracting, and brings to the organization extensive knowledge of our customers. In order to keep pace with the growth of our business, we continue to strengthen our management team and, as necessary, add personnel in key positions based on our business needs.

Vehicle Deliveries and Backlog

See Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations,* in Part II of this Annual Report on Form 10-K for the quantity of vehicle deliveries and backlog as of December 31, 2010 and 2009. Our backlog is "funded" backlog, meaning that it reflects vehicles for which we have received firm contract orders and for which funding has been appropriated and authorized for expenditure by the customer. See also *Risk Factors Our U.S. and foreign government contracts may be terminated or adversely modified prior to completion, which could adversely affect our business* in Item 1A of this Annual Report on Form 10-K.

Regulatory Environment

Government Contracts and Regulation

We are a U.S. DoD contractor that delivers products and services to the U.S. military. The U.S. government contracting process differs in many ways from commercial contracting, and involves a high degree of federal government regulation and oversight of the programs in which we participate. As a result, we are subject to extensive regulations, including the Federal Acquisition Regulation (FAR) and requirements of the U.S. government agencies and entities that govern these programs, including award, administration and performance of contracts. We are also subject to business risks associated with the U.S. government program funding and appropriations for government contracts as well as termination of the contracts at the election of the government. In addition to delivering products and services to the U.S. DoD for use by the U.S. military, we also enter into FMS contracts with the U.S. DoD. Under FMS contracts, we provide products and services to the U.S. government for subsequent transfer to foreign militaries. The FMS process subjects us to additional import, export and contracting regulations.

In addition, U.S. government contractors that perform military programs are also subject to audits and investigations by U.S. government agencies such as the Defense Contract Management Agency (DCMA), the Defense Contract Audit Agency (DCAA), the U.S. DoD Inspector General, and other governmental entities. U.S. governmental agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. These entities also review the adequacy of compliance with internal control systems and policies, including the contractor's purchasing, property, quality, accounting, estimating, compensation and management information systems, as well as investigate possible instances of fraud, waste and abuse. In March 2009, the DCAA audited our financial condition and capability and advised us that we had an "acceptable rating." This rating means that the DCAA has determined that we currently, and for the near-term, have adequate financial resources to perform U.S. government contracts.

Many of our contracts are issued as orders on a sole-source basis and/or a "not to exceed" amount and then become fixed-price contracts. Under fixed-price contracts, the contractor agrees to perform a specific scope of work for a fixed price. As a result, the contractor benefits from any cost savings but suffers from any losses from cost overruns.

Many of our contracts are and have been subject to "definitization," meaning that the contract price is not agreed upon at contract inception. Instead, following the award of the contract, we and the U.S. government seek to agree upon a contract price based upon our anticipated cost of performing the contract. During the definitization process, we are required to perform the contract work, make deliveries and receive payments from the U.S. military before the final contract price has been established. For this reason, as part of the original award, we agree to a "not to exceed" price to be used for invoicing and accounting purposes pending definitization. Following an award of these orders, we are obligated to perform the work subject to any funding limitations and the "not to exceed" amount while we and the government negotiate a final contract price for the scope of the work to be completed. As a result, at the completion of the contract, we may have received overpayments during the course of the contract and, if so, will be required to return any overpayments to the U.S. military.

In addition, we also hold indefinite delivery, indefinite quantity (IDIQ) contracts. Essentially, IDIQ contracts are umbrella contracts setting forth the basic terms and conditions under which the agency may order goods from a contractor, and in some cases, multiple contractors. Contractors undergo a competitive pre-selection process to become eligible to receive orders under IDIQ contracts. Many

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orders under these IDIQ contracts are also subject to the definitization process. In addition, IDIQ contracts do not obligate the federal government to purchase goods above the minimum levels set forth in the contract.

Certain Laws and Regulations Affecting Our Business

There are certain federal laws that, while not specifically directed at us as a contractor, may affect our U.S. government contracts. The Anti-Deficiency Act is a collection of laws through which Congress exercises its constitutional control of the public purse and prohibits involving the government in any obligation to pay money before funds have been appropriated for that purpose. The central provision prohibits making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law.

There are also numerous provisions within the FAR that affect the procurement process and administration of our contracts. With respect to conducting procurement, the FAR provides guidance on how the agency is to conduct the evaluation of a Request for Proposal. The FAR also provides a mechanism through which disappointed bidders and contractors excluded from competing for government contracts and task or delivery orders may submit an objection, called a "bid protest," in accordance with the relevant rules and regulations. Another area covered by the FAR is an organizational conflict of interest. These regulations establish rules for avoiding, mitigating and neutralizing conflicts of interest in the issuance and performance of contracts by the federal government. Both contractors and contracting officers bear the burden of identifying and reporting organizational conflicts of interest.

Some contracts may be subject to the Truth in Negotiations Act, referred to as TINA, Cost Accounting Standards and Contract Cost Principles and Procedures. Generally, TINA requires us to provide cost or pricing data and to certify that those data are current, accurate and complete, in connection with the negotiation of certain types of contracts, modifications or orders, but there are some exceptions to TINA, including contracts that are based on adequate price competition. Failure to comply with TINA could result in a determination of defective pricing resulting in significant penalties including treble damages and possible disbarment as a government contractor under the False Claims Act. The Cost Accounting Standards apply to certain contracts awarded to us after May 19, 2008. The Cost Principles set forth the rules regarding the degree of cost allocation and allowance incurred in connection with federal government contracts. Our conduct and performance is also subject to the False Claims Act and other anti-fraud statutes. The False Claims Act prohibits contractors from knowingly submitting false or fraudulent claims for money (*e.g.,* a false or fraudulent invoice) to the federal government.

Laws and Regulations Affecting International Activities

Federal laws affect our ability to sell our products abroad and grant access to our technology to foreign nationals in the U.S. We are obligated to comply with a variety of federal, state and local regulations, both domestically and abroad, governing certain aspects of our international sales and support, including regulations promulgated by, among others, the U.S. Departments of Commerce, Defense, State, Treasury and Justice and the Bureau of Alcohol, Tobacco, Firearms and Explosives. These laws and regulations impose compliance and licensing obligations to obtain U.S. government authorization for transfers outside the U.S. and to persons in the U.S. other than U.S. citizens and U.S. lawful permanent residents.

The Foreign Corrupt Practices Act, referred to as the FCPA, and equivalent laws and regulations in foreign jurisdictions prohibit improper payments to foreign governments and their officials by U.S. and other business entities. The FCPA has two principal parts: anti-bribery and record keeping

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provisions. The U.S. Department of Justice enforces the anti-bribery provisions; the Securities and Exchange Commission (SEC) also has jurisdiction over civil enforcement of the anti-bribery provisions. The record keeping requirement obligates companies to maintain accurate books and records and internal financial controls regarding all transactions. The SEC oversees enforcement of these provisions.

Intellectual Property

Intellectual property rights, which apply to various Force Protection products and technologies, include patents, copyrights, trade secrets and trademarks. We seek to remain competitive in the market by placing emphasis on research and development and are committed to capturing, protecting and enforcing our intellectual property rights. We continue to review our practices and procedures to ensure the protection of our intellectual property.

We are a party to several long-term intellectual property agreements pursuant to which we have the right to use and/or own certain intellectual property technology relating to blast- and ballistic-protected vehicles. We have an agreement with CSIR Defencetek (CSIR), a division of the Council for Scientific and Industrial Research, a statutory council established in accordance with the Laws of the Republic of South Africa and one with Mechem, a division of Denel Pty Ltd, a company established under the Laws of the Republic of South Africa (Mechem). Under these agreements, we pay a per vehicle royalty fee in exchange for the exclusive transfer to us of certain technology regarding the Buffalo and Cougar.

In September 2009, we entered into an agreement for the development, marketing and sale of the Ocelot with Ricardo U.K. Ltd., which provides for various terms including that the Company owns all foreground intellectual property in exchange for the payment of certain development costs and vehicle royalty fees.

In May 2010, we entered into an asset purchase and intellectual property agreement with TAC-V, Inc. and TAC-V, LLC in connection with the purchase of JAMMA prototypes and tooling. This agreement also provides that the Company has an exclusive, irrevocable, worldwide license for the JAMMA.

We are a party to another license agreement with CSIR, pursuant to which we received two separate licenses. The first is a fully paid internal license to perform research and development to verify, test and develop the protection of wheeled and tracked vehicles against landmines and IEDs and assess the market for products in consideration of investing research and development funding. This second license also includes an annual license to exploit, including the exclusive manufacture, marketing, sale and use, the licensed technology in the various countries.

In connection with our subcontract with BAE Systems, we entered into a production license agreement with BAE Systems, dated June 13, 2006, pursuant to which we license to BAE Systems the use of our Cougar vehicle as the basis for the ILAV vehicle design, and act as BAE Systems' principal subcontractor to provide the manpower and other resources needed to produce 50% of the vehicles in Ladson, South Carolina. Pursuant to the terms of the agreement, we receive a license fee for each ILAV vehicle manufactured by BAE Systems under the agreement.

Environmental Matters

We are subject to federal, state, local and foreign laws and regulations regarding the protection of the environment, including noise, air, water and soil. Our manufacturing business involves the use, handling, storage and contracting for the recycling or disposal of, hazardous or toxic substances or wastes, including environmentally sensitive materials, such as batteries, solvents, lubricants, degreasing agents, gasoline and resin. We must comply with certain requirements for the use, management, handling and disposal of these materials.

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Other Regulatory Matters

In addition to the laws and regulations discussed above under "Government Contracts and Regulation" and "Certain Laws and Regulations Affecting Our Business" above, our operations and products are subject to regulation, supervision, and licensing under various other federal, state, local and foreign laws and regulations. Certain governmental agencies such as the Occupational Safety and Health Administration and Department of Labor monitor our compliance with their regulations, require us to file periodic reports, inspect our facilities and products, and may impose substantial penalties for violations of the regulations.

Employees

As of December 31, 2010, we had a total of approximately 1,280 employees, including approximately 440 FSRs. Of our total employees, approximately 340 were hourly employees and approximately 940 were salaried employees. We are not a party to any collective bargaining agreement, although we are subject to the risk that labor unions may seek to unionize certain of our employees.

Management

The following table sets forth certain information about our directors and executive officers as of March 2, 2011.

Name	Age	Position
Michael Moody	64	Chairman, Chief Executive Officer and President
Charles Mathis	51	Chief Financial Officer
Randy Hutcherson	57	Chief Operating Officer
LTG Roger G. Thompson, Jr., USA (Ret.)	66	Lead Director
MajGen. Jack A. Davis, USMC (Ret.)	64	Director
John S. Day	61	Director
B. Herbert Ellis	73	Director
Kenneth A. Merlau	65	Director
John W. Paxton, Sr.	74	Director

Michael Moody. Mr. Moody was appointed President of Force Protection, Inc. in September 2007, Interim Chief Executive Officer on January 30, 2008 and Chief Executive Officer on February 29, 2008. Mr. Moody has more than 30 years of senior management experience in operational management, reorganizations, acquisitions and business transformations. From 2005 through 2007, he provided business and financial advisory services to privately-held businesses. Mr. Moody was the Chief Operating Officer at the London American General Agency and Senior Vice President of Corporate Development for Magna Carta Companies, a mutual insurance company, where he also served on the board of directors. Mr. Moody received the designation of Certified Practicing Accountant (Australia) and became an associate with the Australian Society of Accountants. Mr. Moody holds a Bachelor of Arts in Economics from Macquarie University in Sydney, Australia.

Charles A. Mathis. Mr. Mathis joined Force Protection, Inc. in June 2008 as Executive Vice President, Finance and was appointed Chief Financial Officer effective October 1, 2008. Mr. Mathis is a Certified Public Accountant (CPA) with over 20 years of experience in strategic finance and accounting for a number of manufacturing companies including major defense contractors. Prior to joining Force Protection, Mr. Mathis was Chief Financial Officer of EFW, Inc. a U.S. segment of Elbit Systems Ltd., a public Israeli defense conglomerate. At Elbit, Mr. Mathis was responsible for all areas of finance and accounting, including contract accounting, government compliance, Sarbanes Oxley compliance, tax and the development of joint venture agreements. Prior to Elbit, Mr. Mathis was Vice President, Finance and IT, with Fairbank Morse Engine, a supplier of medium-speed diesel engines to the U.S. Navy and the engine segment of EnPro Industries. Mr. Mathis completed his undergraduate studies at Wake Forest University and received his Master of Business Administration from the University of Chicago Graduate School of Business. Mr. Mathis also served as a Lieutenant in the U.S. Marine Corps.

Randy Hutcherson. Mr. Hutcherson joined Force Protection as Executive Vice President of Programs, Global Sales and Business Development in April 2009, where he oversaw Force Protection's global sales, program and contract management, as well as communications and legislative activities. In February 2010, he was appointed Chief Operating Officer, with responsibility for the day to day operations of Force Protection. Prior to serving in these roles, Mr. Hutcherson was employed as Vice President of Tanker Programs for EADS North America as well as Vice President of Rotorcraft Programs. In addition to his experience in the private sector, Mr. Hutcherson served 26 years in the U.S. Marine Corps in a variety of capacities and retired as a Colonel in the Marine Corps Office of Legislative Affairs in 2002. He holds a Bachelor of Science in Aerospace Engineering from the U.S. Naval Academy, a Master of Science in Systems Management from Troy State University and a Master of Science in National Security Strategies from the National War College.

Lieutenant General Roger G. Thompson, Jr., USA (Ret.). LTG Thompson has been a director of Force Protection, Inc. since December 2006 and serves as the lead independent director and chair of the non-management executive session. LTG Thompson is a veteran with 34 years of active military duty. He has served in the highest leadership positions in the U.S. Army and joint transportation operations, management and procurement. He was the U.S. Army's Director for the Budget and served in a number of other financial management positions, as well as serving in key leadership positions in logistics and field artillery. He currently provides executive leadership in the U.S. Army, where he oversees several symposia, defense landpower exhibitions and overseas tradeshows in addition to leading AUSA's worldwide chapter operations. LTG Thompson completed his military career as the Deputy Commander in Chief, U.S. Transportation Command. In this position he was responsible for the daily operations supporting all military and commercial transportation for the entire DoD. LTG Thompson holds a Bachelor of Science from the U.S. Military Academy, a Master of Business Administration from Syracuse University and a Master's degree in National Security and Strategic Studies from the Naval War College. He is a graduate of the Army's Command and General Staff College and the Naval War College.

MajGen. Jack A. Davis, USMC (Ret.). MajGen. Davis has been a director of Force Protection, Inc. since March 2006 and has a diverse background of senior-level management and leadership positions in business, law enforcement and the military. With over 40 years of experience, he is highly regarded in each of these fields. MajGen. Davis served in the U.S. Marine Corps, both active duty and reserve, from 1968 to 2005 where he held the rank of Major General. MajGen. Davis' career included command at every level from platoon to division in addition to numerous staff assignments. MajGen. Davis attended numerous high-level schools both domestically and internationally. MajGen. Davis' law enforcement career included both federal and state agencies where he retired in 1999 with 30 years of distinguished service. MajGen. Davis is also the founder of J.A. Davis and Associates, a security and leadership training company. In addition to his service with Force Protection, MajGen. Davis currently serves on the board of directors of one privately-held company and the boards of advisors of three mutually-held companies. MajGen. Davis holds undergraduate and masters degrees from Indiana State University and a Master of Urban Administration from the University of North Carolina, Charlotte.

John S. Day. Mr. Day has been a director of Force Protection, Inc. since September 2007 and serves as chairman of the audit committee. Mr. Day has over 30 years of experience in the accounting profession serving a broad range of publicly- and privately-owned clients. Mr. Day currently serves on the boards of: Invesco Mortgage Capital, Inc., a NYSE-listed company, where he is chairman of the audit committee; Lenbrook Square Foundation, Inc., a non-profit organization, where he is chairman of the governance committee; and, Edens & Avant Investments Limited Partnership, a developer, owner and operator of community-oriented retail shopping centers, where he is chairman of the audit committee. Mr. Day joined Deloitte & Touche LLP in Atlanta in 2002 and served as a Director until retiring in 2005. Mr. Day joined Arthur Andersen LLP in 1976 and was admitted as an audit partner in 1986. Mr. Day holds a Bachelor of Arts in Economics from the University of North Carolina and a Master of Business Administration from Harvard Graduate School of Business.

B. Herbert Ellis. Mr. Ellis has been a director of Force Protection, Inc. since April 2009 and has over 20 years of experience in the U.S. Army and in business. Mr. Ellis served as a Colonel, Field Artillery with Research and Development Specialty for the U.S. Army, from 1963 to 1984, including two combat tours of duty in Vietnam with both command and staff positions. Since 2008, Mr. Ellis has served as the president and chief executive officer of BHE, LLC, a consulting firm that supports manufacturing companies. From 2000 to 2008, he served as the president and chief executive officer of Charleston Marine Containers, Inc., a primary producer of modular containers for the U.S. Army, purchased via the U.S. TACOM, previously known as "Tank-automotive and Armaments Command," contracts. From 1993 to 2000, he served as the president and chief executive officer of Barnes & Reinecke, Inc., a major automotive and weapons systems technical support contractor for the TACOM program, and from 1984 to 1993 he acted as the vice president and general manager of Electro-Optical Division of Contraves, USA. Mr. Ellis holds a Bachelor of Science in engineering from the U.S. Military Academy, a Master of Science in Nuclear Physics from the University of Alabama, and he attended the Industrial College of the Armed Forces and the U.S. Army Command and General Staff College.

Kenneth A. Merlau. Mr. Merlau has been a director of Force Protection, Inc. since April 2009 and serves as chairman of the compensation committee. He has extensive experience as an executive, operator and consultant in a wide range of businesses. Presently, Mr. Merlau serves as: chairman and principal stockholder of Design House, Inc., a distributor of home building materials; chairman of SteelCloud Inc., a developer of mobility computing appliance solutions; and, chairman of Clipper Development Company, a business advisory service for owned and invested companies and a strategic and operations consultant to emerging private companies. Mr. Merlau also acted as the chairman and majority shareholder of QuickSet International, Inc., a company focused on ruggedized surveillance and sensor products for the military and Homeland Security markets, from 1989 to 2007. Mr. Merlau has extensive acquisition and integration experience. From 1980 through 2000, Mr. Merlau has been associated with numerous businesses as owner or board member, including: Tamms Industries, Inc., Transo Envelopes LLC, the Isaac Group, the Peltz Group, Inc, and Metal Management, Inc. From 1970 through 1980, he served as a management consultant for Touche Ross & Co. (now Deloitte & Touche), where he was elected as a partner in 1977. Mr. Merlau is a member of the board of Northside Community Bank and Christ the King Jesuit College Preparatory High School. Mr. Merlau holds a Bachelor of Science from Purdue University and a Master of Business Administration from the University of Chicago Graduate School of Business.

John W. Paxton, Sr. Mr. Paxton has been a director of Force Protection, Inc. since February 2008 and serves as chairman of the governance committee. He has over 30 years of experience in the aerospace, wireless voice and data, logistics and manufacturing industries. Currently, Mr. Paxton serves as chairman of Intellicheck/Mobilisa, Inc., a publicly-held provider of wireless internet solutions to the DoD, where he joined the company in 2002. From 2005 to 2008, Mr. Paxton was the chairman, president and chief executive officer, as well as co-investor, of Pro Mach, Inc., an integrated packaging solutions provider. From 1998 to 2002, Mr. Paxton was the chairman and chief executive officer of Telxon Corporation, as well as served on the board of directors of TransDigm, Inc., a supplier of proprietary aerospace components used in commercial and military aircraft. From 1995 to 1998, Mr. Paxton was chairman of Odyssey Manufacturing Technologies, an affiliate of Odyssey Investment

Partners. From 1991 to 1995, Mr. Paxton was executive vice president and chief operating officer of Litton Industries. Mr. Paxton served in the U.S. Navy from 1955 to 1963. Mr. Paxton is a guest lecturer at Massachusetts's Institute of Technology's Sloan School of Management and a fellow at Seattle Pacific University, where he also served as an adjunct professor. Mr. Paxton holds a Bachelor of Science and Master of Science in business administration from LaSalle University and is a registered professional engineer.

Our Board of Directors and Committees

Our Board of Directors is divided into three classes, with each class of directors serving a staggered three-year term. Mr. Moody and LTG Thompson are in the class of directors whose term expires in 2013 (Class II); MajGen. Davis and Messrs. Merlau and Ellis are in the class of directors whose term expires in 2012 (Class I); and Messrs. Day and Paxton are in the class of directors whose term expires at our 2011 Annual Meeting of Shareholders (Class III).

We have audit, compensation and governance committees, each of which is composed entirely of directors meeting the applicable independence standards of the Nasdaq Capital Market and the rules and regulations of the Securities Exchange Act of 1934 (Exchange Act). LTG Thompson and Messrs. Day, Paxton and Merlau are the members of our audit committee. Our Board of Directors has determined that Mr. Day is an "audit committee financial expert" defined by applicable SEC rules. Our compensation committee is comprised of MajGen. Davis, LTG Thompson and Messrs. Day, Ellis and Merlau. Our governance committee is comprised of Messrs. Paxton and Ellis and MajGen. Davis and LTG Thompson.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

Our principal executive offices are located at 1520 Old Trolley Road, Summerville, South Carolina 29485, and our telephone number is (843) 574-7001. We are subject to the information reporting requirements of the Exchange Act, and, in accordance with these requirements, we file annual, quarterly and other reports, proxy statements and other information with the SEC relating to our business, financial results and other matters. The reports, proxy statements and other information we file may be inspected and copied at prescribed rates at the SEC's Public Reference Room and via the SEC's website (see below for more information).

You may inspect a copy of the reports, proxy statements and other information we file with the SEC, without charge, at the SEC's Public Reference Room, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, and you may obtain copies of the reports, proxy statements and other information we file with the SEC, from those offices for a fee. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our filings are available to the public at the SEC's website at http*://www.sec.gov*.

Our website address is *www.forceprotection.net*. Through a link on the Investor Relations section of our website, we make available the following filings after they are electronically filed with or furnished to the SEC: our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act. All such filings are available free of charge.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the information incorporated by reference herein, contain both historical and forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Exchange Act. All statements other than statements of historical fact included in this Annual Report on Form 10-K and the documents incorporated by reference in this Annual Report on Form 10-K that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements including, in particular, the statements about our plans, objectives, strategies and prospects regarding, among other things, our financial position, results of operations, cash flows and business. We have identified some of these forward-looking statements with words like "believe," "may," "will," "should," "expect," "intend," "plan," "predict," "anticipate," "estimate" or "continue" and other words and terms of similar meaning. These forward-looking statements include, among other things:

- Statements regarding the growth of the U.S. and world market for blast- and ballistic-protected vehicles, products or services,
- Statements regarding the U.S. military's plans or intentions, including the drawdown of operations in Iraq and the long-term plans to remain in Afghanistan,
- Statements regarding our business development plans and strategy, including our plans to expand our product lines, diversify our business mix, and expand our markets internationally,
- Information regarding our vehicles and services that may be purchased by our customers, including the type of vehicles demanded and other customer demands and expected changes in demand,
- Statements with respect to our ability to obtain materials, our ability to improve cost efficiencies and possible future changes in the efficiencies in our operations,
- Statements regarding our plans to increase our research and development and the effect of such efforts,
- Statements regarding the benefits of our products, services and programs, including our vehicle's capabilities and the use of our vehicles and services for other than military purposes,
- Statements regarding any changes in our cost of sales, our general and administrative expenses or our research and development expenses as a percentage of net sales,
- Statements regarding the revenues that may be derived from, and the quantities of vehicles, products and services that may be purchased or ordered pursuant to, existing or possible future contracts or orders by various customers, including statements regarding the estimated value of those orders and contracts and statements about our backlog,
- Statements regarding the effects of our adaptable manufacturing capacities,
- Statements regarding the benefits that may be realized from our joint ventures, teaming arrangements and any new ventures or business developed pursuant to them,

Statements regarding our expected cash flow, cash needs and expected capital expenditures, and

Statements regarding our ability to utilize net operating loss carryforwards for income tax purposes.

These forward-looking statements are based on expectations about future events at the time they were made and are subject to numerous uncertainties and factors, all of which are difficult to predict and many of which are beyond our control. Many factors mentioned in our discussion in this Annual

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Report on Form 10-K and the documents incorporated by or deemed to be incorporated by reference in this Annual Report on Form 10-K, including the risks outlined under Item 1A, *Risk Factors*, will be important in determining future results. We do not know whether the expectations reflected in these forward-looking statements will prove correct. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties, including those described under the heading "Risk Factors" and those discussed in other documents we file with the SEC, which are incorporated or deemed to be incorporated by reference in this Annual Report on Form 10-K.

In addition, this Annual Report on Form 10-K and the documents incorporated by reference herein contain historical information, forecasts and estimates regarding defense expenditures by the U.S. government, actual and anticipated procurement of armored vehicles and similar matters. This historical data and these forecasts and estimates have been obtained from publicly available information, industry publications, trade associations and data compiled by independent market research firms. However, we have not independently verified this information and we cannot assure you that it is accurate or that these forecasts and estimates will prove correct.

When used in this Annual Report on Form 10-K, except as specifically noted otherwise, the term "Force Protection, Inc." refers to Force Protection, Inc. only, and the terms "Company," "we," "our," "ours" and "us" refer to Force Protection, Inc. and its consolidated subsidiaries.

ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. Please also see "Special Note Regarding Forward-Looking Statements" on page 18.

If we are unable to obtain future orders for our vehicles, products or services, our financial position, results of operations, or cash flows could be adversely affected and our business may fail.

We cannot be certain of the degree to which military users will continue to place orders, and these orders may decrease significantly or cease. Also, political pressure, the success of the current operations, changes in tactics of the insurgency, and other factors make it difficult to ascertain customer requirements. The challenging economic environment and potential changes in defense spending may have an adverse impact on the number and volume of future orders placed for our products and services, which could have a significant impact on our business and results of operations.

The main uncertainty about our future operations is whether we will continue to receive additional orders or contracts for our vehicles, products and services. Although we currently have a significant order for 200 Ocelot vehicles and certain orders for products and services going forward, it is impossible to predict with certainty whether such future orders or contracts will be replaced by existing or new customers. If we do not receive future orders or contracts for vehicle production, it is unlikely that our vehicle business will continue and our business will be materially affected. Even if we are successful in obtaining contracts, the length of the contract cycle, from testing, pre-production to the delivery of the order when revenue is recognized, may span several months to years.

In addition, we derive a majority of our revenue from the U.S. government and its agencies, primarily the U.S. DoD, and the programs we serve are subject to funding by the U.S. government. The U.S. government has incurred and is expected to continue to incur record federal budget deficits, which may adversely affect the level of funding for certain programs. If the U.S. government significantly reduces funding for the programs we serve, as a result of the federal deficits or other macroeconomic and geopolitical conditions, we may have unexpected losses of revenue and our business, financial position, results of operations or cash flows could be adversely affected.

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If we are unable to anticipate the demand for and develop solutions for the next generation vehicles, products or services our net sales may decline, our business may be adversely affected and we may be unable to meet the demands of our current and future customers.

We must successfully develop new products and technologies or modify our existing products and technologies to grow our current and future markets. Our future performance depends, in part, on our ability to identify emerging technological trends and customer requirements in our current and future markets and to develop and maintain competitive products and services.

Our product development costs have been steadily increasing and a portion of our current resources will continue to be devoted to research and development. Our results from operations could be adversely affected if our research and development investments to develop products are less than expected. Furthermore, because of the lengthy research and development cycle involved in bringing products to market, we cannot predict the economic conditions that will exist when any new product is complete.

In addition, certain of our competitors have greater resources to devote to research and development, and we may not have sufficient resources to undertake the continuing research and development necessary to remain competitive. We cannot be sure that our competitors will not develop competing technologies which gain market acceptance in advance of our products. A failure in our new product development efforts or the failure of our products or services to achieve market acceptance more rapidly than our competitors could have an adverse effect on our financial condition and results of operations.

Substantial research and development costs typically are incurred before we confirm the technical feasibility and commercial viability of a new product, and not all development activities result in commercially viable products. There can be no assurance that revenues from future products or product enhancements will be sufficient to recover associated development costs. In addition, under U.S. and foreign government purchasing regulations, some of our costs, including portions of research and development costs, and certain marketing expenses may not be subject to reimbursement.

Our revenue growth may be constrained by our product concentration and lack of market diversification, and our financial condition and results of operations may deteriorate if we fail to diversify.

Continued market acceptance of our products is critical to our future success. As a result, our business, operating results, financial condition, and cash flows could be adversely affected by: a decline in demand for even a limited number of our products; a failure to achieve continued market acceptance of our key products; export restrictions or other regulatory or legislative actions that could limit our ability to sell those products to key customer or market segments; an improved version of products being offered by a competitor; increased pressure from competitors that offer broader and/or cheaper product lines; technological changes that we are unable to address with our products; or a failure to release new or enhanced versions of our products on a timely basis. In addition, our limited product lines may result in customers ordering competing products from competitors that offer additional products as well.

We expect to grow our business by diversifying our product lines, by leveraging our technologies within our existing product lines and by expanding our international operations. Such diversification requires investments and resources which may not be available as needed and such activities may divert the attention of our management and resources from our existing operations. We cannot assure you that we will be successful in any of our attempts to diversify our product concentration and enter into new markets and thus, in meeting the needs of these new customers and competing favorably in these new markets. Our future prospects may be negatively affected if we are unable to diversify our product lines and decrease our product concentration.

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The U.S. government may reform its procurement or other practices in a manner adverse to us.

Because we derive a significant portion of our revenues from contracts with the U.S. government or its agencies, we believe that the success and development of our business will depend on our continued successful participation in federal contracting programs. The current administration has indicated its intent to reform government procurement practices through a number of regulatory and procedural changes which, depending upon how they are implemented, could adversely affect our business. Specific changes and outcomes remain uncertain, but any ordered reform measures could potentially increase the costs of current contract fulfillment or impair the ability of the company to effectively compete for new contracts.

We are expanding international operations, which subjects us to additional business risks that may have a material adverse effect on our business.

Expanding international sales and operations is a part of our growth strategy. During 2010, our Ocelot vehicle was selected for the LPPV program, with 200 vehicles to be manufactured in the U.K. We are pursuing additional contracts internationally and many of these programs also require local manufacturing. International operations and sales are subject to various risks, including foreign currency, political, economic, trade barriers, foreign government regulations and taxes, governmental expropriation and differences in business practices. We may incur increased costs and experience delays or disruptions in product deliveries in connection with starting up international manufacturing operations that could cause a loss. Failure of performance could impact revenue and result in contract disputes. In addition, we are subject to export control regulations, including, without limitation, the U.S. Export Administration Regulations and the International Traffic in Arms Regulations, which may have a material adverse effect on our business, financial position, results of operations or cash flows.

We rely on joint ventures, teaming agreements, subcontractors and suppliers to manufacture or perform some of the assembly of our vehicles, supply products or provide services. The loss of any critical partner could delay our meeting contractual obligations, which could affect our ability to meet our contract delivery requirements.

We outsource the manufacturing of some of our vehicles and products. If any of our selected partners, subcontractors or suppliers cease doing business with us or fail to perform, we would have to develop new sources or perform the work ourselves. In the event that we are unable to obtain required products or services from our existing partners, subcontractors or suppliers, and if we are unable to mitigate the impact or find alternate sources in a timely manner, it could have a material adverse effect on our ability to produce our vehicles and provide repairs and sustainment, and, as a result, our business, financial position, results of operations or cash flows may be affected.

Our limited control over our joint ventures, partners and subcontractors may delay or prevent us from implementing our business strategy which may adversely affect our financial results.

We are a party to various joint ventures, subcontracts, teaming agreements and joint development arrangements with several partners, some of which are competitors. We may also enter into additional arrangements in the future. Because we have shared control over our joint ventures and limited control over our partners and subcontractors, we may not be able to require them to take actions that we believe are necessary to implement our business strategy. If our partners or subcontractors fail to fulfill their obligations, we could be responsible to the customer and would have to rely on our ability to obtain reimbursement from our partner or subcontractor for our costs, over and above any reimbursement which may be due from the customer. Obtaining such reimbursement could require us to engage in litigation, and could take a substantial amount of management time and resources. If our partner or subcontractor becomes insolvent or ceases operations, we might not be able to obtain reimbursement. Accordingly, this limited control could have a material adverse effect on our business, financial position, results of operations or cash flows.

We must comply with export control laws, the Foreign Corrupt Practices Act, numerous federal national security laws, regulations, and procedures, as well as the rules and regulations of foreign jurisdictions, and our failure to comply could adversely affect our business.

We are subject to export and import licensing requirements with respect to the marketing and sales, testing, service and support in foreign countries of our vehicles, products and services. In addition, we are obligated to comply with a variety of federal, state and local regulations, both domestically and abroad, governing certain aspects of our international sales and support.

We are subject to the Foreign Corrupt Practices Act (FCPA) and other laws which prohibit improper payments to foreign governments and their officials by U.S. and other business entities. Our operations in such countries create the risk of an unauthorized payment by one of our employees or agents which would be in violation of various laws including the FCPA.

We must comply with laws and regulations relating to the formation, administration and performance of federal government contracts including the FAR and similar foreign government regulations. These laws and regulations affect how we conduct business with our federal government and foreign governments. In complying with these laws and regulations, we may incur additional costs, and non-compliance may also result in fines and penalties.

We are subject to industrial security regulations of the U.S. DoD and other federal agencies that are designed to safeguard against foreigners' access to classified information. As we continue to expand our operations internationally, we are subject to the rules and regulations of foreign jurisdictions.

We may not effectively develop and manage our policies, procedures, processes or systems, which could materially harm our business.

As our business continues to change, there may be a significant strain on our management, personnel, systems and resources that diverts the attention of key personnel. We must continue to improve our operational and financial policies and systems and managerial controls and procedures, and we will need to continue to train and manage our technology and workforce. We must also maintain close coordination among our technology, compliance, quality, accounting, finance, marketing and sales organizations. Our continued maturing as a business may require an additional investment by us in technology, facilities, personnel, and financial and management systems, and policies and controls. It also will require expansion of our procedures for monitoring and assuring our compliance with applicable regulations. These factors could increase our need for internal audit and monitoring processes that might be more extensive and broader in scope than those we have historically required. If we fail to manage these additional elements successfully, we could adversely affect our business, financial position, results of operations or cash flows.

Many of our orders are subject to the competitive bidding process, which we may not win, and which could result in expenses that we are unable to recoup, and related losses.

We have received contract awards through the competitive bidding process and may continue to do so in the future. However, the competitive bidding process presents a number of risks, including bidding against large and established government contractors with substantially greater resources than we have. Competitive bidding also involves costs which may not be recouped, cost overruns, or awards subject to bid protest. Also, due to the commercial nature of many vehicle components, we compete with established commercial vehicle suppliers and component OEMs for spare part sales. As a result, if we are not successful in the bidding process, we may incur losses, which could adversely affect our business.

Our U.S. and foreign government contracts may be terminated or adversely modified prior to completion, which could adversely affect our business.

Government contracts generally contain provisions, and are subject to laws and regulations, which provide the government with rights and remedies not typically found in commercial contracts, including provisions permitting the government to, among other provisions: terminate our existing contracts for convenience; unilaterally modify some of the terms and conditions in our existing contracts; subject the award to protest or challenge by competitors; suspend work under existing multiple year contracts and related delivery orders; and claim rights in technologies and systems invented, developed or produced by us.

Given the ability of the government to unilaterally terminate a contract, we experience uncertainty and unpredictability with respect to the fulfillment of our orders, which makes it difficult to generate forecasts. As a result, there can be no assurance that we will deliver or receive payment for the vehicles we have included in our backlog or generate results in line with our forecasts.

We are presently subject to a number of legal proceedings and claims and we may become subject to additional legal proceedings and claims in the future.

We have been subject to shareholder class action and derivative lawsuits, including allegations that certain former members of management and the Board of Directors violated the Exchange Act and made false or misleading public statements or omissions concerning our business, internal controls, and financial results. It is possible that other litigants may institute additional lawsuits against us as a result of these alleged deficiencies seeking the payment of damages. We are subject to a variety of other lawsuits and claims, including complaints filed with the Equal Employment Opportunity Commission, regulations related to our common shares, and other regulatory agencies. Such litigation, claims and regulatory inquiries, whether successful or not, could require us to devote significant amounts of money for legal defense, human resources, and management time to defend ourselves and could harm our reputation. If, as a result of any proceedings, a settlement is reached, a judgment is rendered or a decree is entered against us, it could materially and adversely affect our business, financial position, results of operations or cash flow and harm our reputation.

See Item 3, *Legal Proceedings* in Part I of this Annual Report on Form 10-K.

We may make acquisitions, which may pose risks to our business and dilute the ownership of our existing stockholders.

In the future, we may enter into acquisitions in an effort to enhance shareholder value, and in order to expand our capabilities, enter new markets or increase our market share. Acquisitions involve a certain amount of risks and uncertainties that could result in our not achieving expected benefits. Such risks include: difficulties in integrating newly acquired businesses and operations in an efficient and cost-effective manner; challenges in achieving expected strategic objectives, cost savings and other benefits; the risk that the acquired businesses' markets do not evolve as anticipated and that the technologies acquired do not prove to be those needed to be successful in those markets; the risk that we pay a purchase price that exceeds what the future results of operations would have merited; and the potential loss of key employees of the acquired businesses. In addition, unanticipated delays or difficulties in acquisitions may divert the attention of our management and resources from our existing operations. Future acquisitions by us could also result in large and immediate write-offs or assumptions of debt and contingent liabilities, any of which may have a material adverse effect on our business, financial position, results of operations or cash flows.

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Demand for our vehicles, products and services can vary throughout the year, which can result in excess and underutilized capacity, and our gross margins and cash flows may suffer and we may incur losses.

As our manufacturing for mine-protected vehicles has decreased, we have had periods of time in which we have excess and underutilized manufacturing capacity. In addition, demand for our vehicles may not remain at levels sufficient to utilize our present manufacturing capacity. Much of our manufacturing facilities and production equipment are special purpose in nature and cannot be adapted easily to make other products. A substantial decline in demand for our blast- and ballistic-protected vehicles and related products could result in significant additional excess and underutilized manufacturing capacity, which could cause us to write off the value of our facilities and equipment, which could adversely affect our results of operations and could result in losses.

U.S. government agencies, generally through the Defense Contract Audit Agency (DCAA) and Defense Contract Management Agency (DCMA), routinely audit and monitor government contracts and government contractors' administrative processes and systems, and compliance. Audits could question or disallow our proposed costs under some of our government contracts, and we may be subject to civil and criminal penalties and administrative sanctions, which could adversely affect our business, financial position, results of operations or cash flows.

The DCAA continues to audit certain of our price proposals and indirect rate submissions as required by the FAR. The audits may review the costs we incur on our U.S. government contracts, including allocated indirect costs. As a result, the DCAA could question or disallow our proposed costs under some of our government contracts, and our profits may be adversely affected. The DCMA manages overall contractor performance and routinely audits and evaluates contractor performance in the areas of quality and overall contract performance. The audits may also review our compliance with applicable laws, government regulations, policies and standards as they relate to cost issues and the adequacy of our internal control systems and policies. An adverse finding could result in the disallowance of our costs under a U.S. government contract. If any audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government. In addition, responding to governmental audits may involve significant expense and divert management attention. Similar risks exist with foreign governments that we deal with directly.

Presently, all of our contracts are on a fixed-price basis, which could subject us to losses if there are cost overruns.

Under a fixed-price contract, we receive only the amount indicated in the contract, regardless of the actual cost to produce the goods or provide the services. While firm fixed-price contracts allow us to benefit from potential cost savings, they also expose us to the risk of cost overruns. Also, many of the contracts we receive from the U.S. military are sole source with a "not-to-exceed" amount and are subject to "definitization," meaning that the contract price is not agreed upon at contract inception. If the estimates we use to calculate the contract price are incorrect, the cost to perform the work proves to be greater than the price, or the definitized contract price is less than the cost, we could incur losses. In addition, some of our contracts have specific provisions relating to schedule and performance, which may result in penalties for failure to perform. Accordingly, there can be no assurance that the actual prices we receive under contracts will not be substantially less than our estimates or costs, which could adversely affect our cash flows, our operating results and could result in losses.

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We may not be able to adequately safeguard our intellectual property rights and trade secrets from unauthorized use, and we may become subject to claims that we infringe on others' intellectual property rights.

We rely on a combination of patents, trade secrets, trademarks, and other intellectual property laws, licensing agreements, nondisclosure agreements with employees, subcontractors, partners and suppliers and other protective measures to preserve our proprietary rights to our products and production processes. Our pending patent applications may not be granted by the various patent offices examining them. Even if our patent applications are granted and issued as patents, these measures afford only limited protection and may not preclude competitors from developing products or processes similar or superior to ours. Moreover, the laws of certain foreign countries do not protect intellectual property rights to the same extent as the laws of the U.S. Furthermore, third parties may assert that our products or processes infringe their patent or other intellectual property rights. Enforcing or defending our proprietary rights could be expensive, require management's attention and might not bring us timely or effective relief.

Unanticipated changes in our tax provisions or exposure to additional income tax liabilities could affect our profitability.

We are subject to income taxes in the U.S. and could be subject to tax in foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Furthermore, changes in domestic or foreign income tax laws and regulations, or their interpretation, could result in higher or lower income tax rates assessed or changes in the taxability of certain sales or the deductibility of certain expenses, thereby affecting our income tax expense and profitability. In addition, we regularly are under audit by tax authorities. The final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. Additionally, changes in the geographic mix of our sales could also impact our tax liabilities and affect our income tax expense and profitability.

Our operations could be adversely affected by interruptions of production that are beyond our control.

Our business and financial results may be affected by certain events that we cannot anticipate or that are beyond our control, such as natural disasters and national emergencies that could curtail production at our facilities and cause delayed deliveries and canceled orders. In addition, we purchase components and raw materials and information technology and other services from numerous suppliers, and, even if our facilities are not directly affected by such events, we could be affected by interruptions in our manufacturing and delivery performance. Such suppliers may not be able to quickly recover from such events, or may not be able to recover at all, which would subject us to additional delays and difficulty conducting our operations.

We may require additional capital to provide for our working capital needs.

We may require additional capital for our business needs. See Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources*, contained elsewhere herein. There can be no assurance that we will be able to obtain any such additional capital on acceptable terms or at all. The credit markets and the financial services industry continue to experience a period of unprecedented turmoil characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the federal government. In addition, current continued weak economic conditions and tight credit markets could become more severe or prolonged, government funding levels for military programs that we currently have under contract could decline significantly, military programs that we currently have under contract could be competed or changes could occur that alter our ability to effectively compete in our markets. Should one or more of these events occur, conditions could arise which could limit our ability to generate sufficient cash flows or access borrowings to enable us to fund our liquidity needs, further limit our financial flexibility or impair our ability to obtain alternative financing.

Our ability to operate effectively could be impaired if we were to lose the services of our key personnel, or if we are unable to recruit qualified managers and key personnel in the future.

Our success depends on the continued service of our management team and certain key personnel. If we are unable to retain our existing managers and employees or hire and integrate new personnel, we may experience operating inefficiencies, production delays and reduced profitability or losses.

Compliance with increasing environmental regulations and the effects of potential environmental liabilities could have a material adverse financial effect on us.

We, like other industry participants, are subject to various federal, state, local and international environmental laws and regulations. Our operations require the handling, use, storage and disposal of certain regulated materials and wastes. These requirements govern, among other things, emissions to air, noise, discharge to waters and the generation, handling, storage, treatment and disposal of regulated materials, waste and remediation of contaminated sites. We have made, and will continue to make, capital and other expenditures in order to comply with these laws and regulations in both the U.S. and abroad. We may be subject to increasingly stringent environmental and regulatory standards in the future, particularly as climate change initiatives increase in focus. Future developments, administrative actions or liabilities relating to environmental and climate change matters could have a material adverse effect on our business, results of operations or financial condition.

Risks Related to our Common Stock

Our articles of incorporation authorize the issuance of shares of blank check preferred stock.

Under the terms of our articles of incorporation, our Board of Directors is authorized to issue from time to time, without any need for approval by our shareholders but subject to any limitations prescribed by law, shares of our preferred stock in one or more series. Each series shall consist of such number of shares and have the rights, preferences, powers and restrictions, such as dividend rights and preferences, conversion rights, voting rights, terms of redemption and liquidation rights and preferences, as our Board of Directors shall determine. Such shares of preferred stock could have preferences over our common stock with respect to dividends and liquidation rights. The Board of Directors may issue preferred stock with voting, conversion or other rights that may have the effect of delaying, deferring or preventing a change in control of the Company and that could adversely affect the market price of the common stock and the voting and other rights of the holders of common stock.

Our stock price has been volatile, and the value of an investment in our common stock may decline.

The market price and trading volume of our common stock has been subject to significant volatility and this trend may continue. For example, during the 2010 fiscal year, the price of our common stock ranged from $3.86 to $6.75. The value of our common stock may decline regardless of our operating performance or prospects. Factors affecting our market price include, but are not limited to, our failure to meet expectations regarding new orders or sales of our vehicles; differences between our reported results and those expected by investors and securities analysts; announcements of new contracts or orders by us or our competitors; and market reaction to any future acquisitions, joint ventures or strategic investments announced by us or our competitors.

Recent events have caused stock prices for many companies, including ours, to fluctuate in ways unrelated or disproportionate to their operating performance. The general economic, political and stock market conditions that may affect the market price of our common stock are beyond our control. The

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continued credit crisis and related turmoil in the global financial markets has had and may continue to have an impact on our stock price. For example, the limited availability of credit in the financial markets and the continued threat of terrorism in the U.S. and abroad, the resulting military action, and heightened security measures undertaken in response to threats may cause continued volatility in securities markets. The market price of our common stock at any particular time may not remain the market price in the future. In the past, securities class action litigation has been instituted against companies following periods of volatility in the market price of their securities. Any such litigation, if instituted against us, could result in substantial costs and a diversion of management's attention and resources.

Anti-takeover provisions in our articles of incorporation and by-laws, as well as Nevada Corporation Law, could make it difficult for our shareholders to replace or remove our current Board of Directors or have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of our common stock.

As discussed above, our Board of Directors is empowered to issue preferred stock in one or more series without shareholder approval. Any issuance of this "blank check" preferred stock could materially limit the rights of holders of the common stock and render more difficult or discourage an attempt to obtain control of us by means of a tender offer, merger, proxy contest or otherwise. In addition, our articles of incorporation and by-laws contain a number of provisions that could impede a takeover or change in control of us, including our staggered board, limitation on the ability of our shareholders to act by written consent, advance notice provisions and the ability for the Board of Directors to fill a vacancy on our Board of Directors.

Certain provisions of the Nevada General Corporation Law could also discourage takeover attempts that have not been approved by our Board of Directors or shareholders. These provisions relate to, among other things, the acquisition of a controlling interest in a Nevada corporation meeting certain requirements or certain business combinations and other transactions between a Nevada corporation and certain "interested stockholders."

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table provides information concerning our properties as of December 31, 2010:

Properties as of December 31, 2010	Owned/ Leased	Approximate Square Footage	General Usage
Ladson, South Carolina	Leased	543,000	Manufacturing and office
Edgefield, South Carolina	Owned	10,000	Blast range and office
Summerville, South Carolina	Owned	10,900	Corporate office
Summerville, South Carolina	Leased to Own	60,000	Research and development
Roxboro, North Carolina	Owned	430,000	Training and vehicle testing
Sterling Heights, Michigan	Leased	9,700	Engineering
Arlington, Virginia	Sub-leased	4,100	Office
North Charleston, South Carolina	Leased	18,000	Warehouse
Bristol, United Kindgom	Leased	2,500	Office
Leamington Spa, United Kingdom	Sub-leased	11,500	Office

We believe that our existing properties are suitable for the conduct of our business, are adequate for our present needs and will be adequate to meet our future needs.

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ITEM 3. LEGAL PROCEEDINGS

Shareholder Class Action and Derivative Actions

On March 10, 2008, the first of ten related class action lawsuits was filed against us and certain of our former and current directors and officers in the U.S. District Court for the District of South Carolina, Charleston Division, on behalf of a purported class of investors who purchased or otherwise acquired our stock during the period between August 14, 2006 and February 29, 2008. The complaints sought class certification, and the allegations include, but are not limited to, that the defendants violated the Securities Exchange Act of 1934 and made false or misleading public statements and/or omissions concerning our business, internal controls, and financial results. The individual class action lawsuits were consolidated on June 10, 2008, under the caption *In Re Force Protection, Inc. Securities Litigation*, Action No. 2:08-cv-845-CWH (Securities Class Action). The parties to the Securities Class Action filed a stipulation of settlement on September 27, 2010. The Court granted preliminary approval of the settlement on October 5, 2010 and at the January 25, 2011 hearing on the parties' motions for final approval of the settlement, the Court verbally stated that it would approve the settlement, but has not yet issued a written order concerning final approval. The settlement amount is $24.0 million.

Between March 27, 2008 and September 24, 2010, a series of related shareholder derivative actions were filed in both state and federal courts against certain of our former and current directors and officers alleging that the individual defendants breached fiduciary duties, abused control, engaged in gross mismanagement, wasted corporate assets and were unjustly enriched. Recovery is sought for the benefit of the Company, which has been named a nominal defendant in each derivative action. The state court actions pending in South Carolina were consolidated on May 18, 2009. Another derivative action was filed in state court in Nevada in September 2010. Four derivative lawsuits pending in the U. S. District Court for the District of South Carolina, Charleston Division, were consolidated on March 31, 2009, under the caption *In Re Force Protection, Inc. Derivative Litigation*, Action No. 2:08-cv-01907-CWH. An agreement to settle the consolidated shareholder derivative lawsuit pending in federal court (but not the state court proceeding) has been reached and was preliminarily approved by the court on October 5, 2010. This federal shareholder derivative settlement provides that the Company will adopt certain corporate governance practices, receive a payment of $2.25 million from insurance, and pay plaintiffs' attorney's fees and expenses in an amount not to exceed $2.3 million. On December 13, 2010, a hearing was held to determine the final approval of this federal derivative action settlement, but the court has not yet ruled.

Neither the Company nor any of its present and former directors and officers has admitted any wrongdoing or liability in connection with these settlements. Additionally, each settlement provides that the parties have reached a mutually agreeable resolution of the case to avoid protracted and expensive litigation, including the outcome and risks associated with proceeding.

Other Disputes

A total of 78 complaints from current and former employees are currently pending with the U.S. Equal Employment Opportunity Commission (EEOC), alleging, among other things, race and/or gender discrimination. A majority of the complaints have been pending over the past four years. The EEOC is currently investigating the complaints. We have responded and continue to respond to the complaints as such responses become due, and have investigated the allegations.

On June 26, 2009, a temporary independent contractor whose services we terminated in 2007 filed a complaint against the Company in the U.S. District Court for the District of South Carolina, Charleston Division, as Civil Action No. 2:09cv1708-DCN-BM, which alleges a violation under the employee protection provisions of Section 806 of the Corporate and Criminal Fraud Accountability Act of 2002, Title VIII of the Sarbanes-Oxley Act of 2002, 18 U.S.C. §1514A. The former independent contractor alleges that we terminated his engagement in retaliation for his allegation of certain

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corporate governance, government contracting, accounting and other irregularities. On March 12, 2010, we filed motions to dismiss certain claims in the plaintiff's complaint and the motions are still pending.

In September 2010, we submitted a voluntary disclosure to the Directorate of Defense Trade Controls (DDTC) in regard to the inadvertent import of a vehicle into the U.S. without proper DDTC authorization. Simultaneous with this submission, we requested authorization to allow the vehicle to remain in the U.S. and be displayed at various locations, which the DDTC granted. Our submission to the DDTC also proposed self-corrective actions, which we are implementing. In February 2011, we received a response from the DDTC which has closed this voluntary disclosure without any fines or penalties.

Although we intend to defend ourselves in connection with the foregoing legal proceedings and claims, there can be no assurance that we will ultimately prevail in any of these matters, and any settlement or adverse judgment may have a material adverse effect on our business, financial position, results of operations, or cash flows. We are also a party to other litigation which we consider routine and incidental to our business. We may be involved from time to time in other litigation that could have a material effect on our operations or finances. Other than the litigation described above, we are not aware of any pending or threatened litigation against us that could have a material adverse effect on our business, financial position, results of operations or cash flows.

See Item 1A, *Risk Factors* in Part I of this Annual Report of the Form 10-K.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Registrant's Common Equity

Our common stock has been listed on the Nasdaq Capital Market under the trading symbol "FRPT" since January 18, 2007.

The following table reflects the reported high and low sales prices of 2010 and 2009 of our common stock on the Nasdaq Capital Market.

	High	Low
2009		
First Quarter	$ 7.22	$ 4.27
Second Quarter	$ 10.03	$ 4.73
Third Quarter	$ 6.00	$ 4.05
Fourth Quarter	$ 6.30	$ 4.29
2010		
First Quarter	$ 6.75	$ 4.80
Second Quarter	$ 6.56	$ 3.92
Third Quarter	$ 5.10	$ 3.86
Fourth Quarter	$ 5.74	$ 4.91

We estimate that there were 251 shareholders of record of our common stock as of February 25, 2011.

Dividend Policy

We have never paid nor declared any cash dividends on our common stock. We currently intend to retain earnings, if any, to finance the growth and development of our business, and we do not expect to pay any cash dividends on our common stock in the foreseeable future. Payment of future dividends, if any, will be at the discretion of the Board of Directors and will depend on our financial position, results of operations, capital requirements, restrictions contained in current or future financing instruments, and other factors the Board considers relevant.

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Performance Graph

Comparison of five-year cumulative return among Force Protection, Inc., the S&P 600 Small Cap Index, the S&P 600 Small Cap Aerospace and Defense Index, and our current Peer Group.

The annual change in cumulative total shareholder return for the five-year period shown in the graph below is based on the assumption that $100 had been invested in each of our common stock, the S&P 600 Small Cap Index, the S&P 600 Small Cap Aerospace and Defense Index and the Peer Group on December 31, 2005, and that all quarterly dividends were reinvested at the end of the quarter. The total cumulative dollar returns shown on the graph represent the value that such investments would have had on December 31, 2010 and the prior year's mentioned below, assuming reinvestment of all dividends.

Force Protection, Inc., S&P 600 Small Cap,
S&P 600 Small Cap Aerospace and Defense and Peer Group(1)

	Force Protection, Inc.	S&P 600 Small Cap	S&P 600 Small Cap Aerospace and Defense	Peer Group
December 2005	$ 100.00	$ 100.00	$ 100.00	$ 100.00
December 2006	$ 2,232.05	$ 115.10	$ 116.61	$ 112.01
December 2007	$ 600.00	$ 114.76	$ 155.33	$ 139.35
December 2008	$ 766.67	$ 79.11	$ 100.09	$ 71.90
December 2009	$ 667.95	$ 99.29	$ 95.00	$ 87.67
December 2010	$ 706.41	$ 125.39	$ 125.92	$ 122.48

(1)

Total shareholder return assuming $100 invested on December 31, 2005 and reinvestment of dividends on quarterly basis.

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Peer Group

The peer issuers included in the Peer Group, as determined by management, are set forth below.

AAR Corp	GenCorp Inc.	Ladish Co., Inc.
AeroVironment, Inc.	HEICO Corp.	LMI Aerospace, Inc.
Ceradyne, Inc.	Hexcel Corp.	Sparton Corporation
Cubic Corporation	Kratos Defense and Security Solutions, Inc.	Triumph Group, Inc.
Ducommun, Inc		

We compared our stock performance with the S&P 600 Small Cap Index, the S&P 600 Small Cap Aerospace and Defense Index and the Peer Group. We believe this peer group reflects our business and, as a result, provides a meaningful comparison of our stock performance. The comparison for each of the periods assumes that $100 was invested on December 31, 2005, in our common stock, the stocks included in each of the indices and the peer group and that all dividends were reinvested. The stock performance shown on the graph above is not necessarily indicative of future price performance.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth purchases of our common stock for the three months ended December 31, 2010.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2010 October 31, 2010	14,063(1)	$ 5.61		
November 1, 2010 November 30, 2010				
December 1, 2010 December 31, 2010	81,796(2)	$ 5.13		

(1) Pursuant to a termination agreement with an employee of the Company, which required a cash payment in lieu of shares vesting, 14,063 shares were purchased in October 2010.

(2) In order to comply with the minimum statutory federal and state tax withholding including Social Security and Medicare, employees surrendered an aggregate of 81,796 of their vested shares to the Company to satisfy these withholding obligations.

On March 9, 2011, the Company announced that its board of directors has authorized the Company to repurchase up to $20 million of its common stock. The repurchase program calls for shares to be purchased in the open market or in private transactions. The Company may suspend or discontinue the program at any time. The Company may repurchase shares from time to time depending upon market conditions, the market price of the Company's common stock, and management's assessment of liquidity and cash flow needs.

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ITEM 6. SELECTED FINANCIAL DATA

We derived the selected historical consolidated financial data presented below from our audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. You should refer to Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations,* in Part II of this Annual Report on Form 10-K and the notes to our accompanying consolidated financial statements for additional information regarding the financial data presented below, including matters that might cause this data not to be indicative of our future financial condition or results of operations. In addition, you should note the following information regarding the selected historical consolidated financial data presented below.

The net income available to common shareholders for the year ended December 31, 2006 was impacted by dividends and accretion of our Series D 6% convertible preferred stock. As of December 31, 2006, we removed the valuation allowance from the deferred tax asset as we expected to be able to utilize our net operating loss carryforwards for federal income tax purposes.

As of and for the year ended December 31,	2010	2009	2008	2007	2006
	(In thousands, except share and per share data)				
Results of Operations					
Net sales	$ 655,973	$ 977,051	$ 1,326,331	$ 890,672	$ 196,017
Operating income	23,417	43,344	68,452	5,773	6,636
Income before income tax (expense) benefit	23,522	43,888	69,583	9,373	5,870
Income tax (expense) benefit	(8,309)	(14,428)	(22,664)	(1,721)	12,327
Net income	15,213	29,460	46,919	7,652	18,197
Net income available to common shareholders	15,213	29,460	46,919	7,652	16,574
Basic earnings per common share	$ 0.22	$ 0.43	$ 0.69	$ 0.11	$ 0.37
Diluted earnings per common share	$ 0.22	$ 0.43	$ 0.69	$ 0.11	$ 0.36
Weighted average common shares outstanding:					
Basic	68,828	68,450	68,314	68,054	44,786
Diluted	69,786	69,066	68,393	68,404	50,428
Financial Position at Year-End					
Cash and cash equivalents	$ 149,965	$ 147,254	$ 111,001	$ 90,997	$ 156,319
Property and equipment, net	60,422	58,918	61,429	66,707	8,964
Total assets	482,704	447,088	418,024	474,670	280,414
Current liabilities	152,742	134,761	136,417	242,746	62,392
Shareholders' equity	$ 328,427	$ 311,091	$ 278,327	$ 231,629	$ 217,854

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide information that is supplemental to, and should be read together with, our consolidated financial statements and the accompanying notes contained in this Annual Report on Form 10-K. Information in this Item 7 is intended to assist the reader in obtaining an understanding of our consolidated financial statements, the changes in certain key items in those financial statements from year to year, the primary factors that accounted for those changes, and any known trends or uncertainties that we are aware of that may have a material effect on our future performance, as well as how certain accounting principles affect our consolidated financial statements. MD&A includes the following sections:

- Overview
- Outlook
- Results of Operations an analysis of our consolidated results of operations, for the three years presented in our consolidated financial statements
- Liquidity and Capital Resources an analysis of the effect of our operating, financing and investing activities on our liquidity and capital resources
- Off-Balance Sheet Arrangements a discussion of such commitments and arrangements
- Contractual Obligations a summary of our aggregate contractual obligations
- Dividends our dividend history
- Critical Accounting Policies and Estimates a discussion of accounting policies that require significant judgments and estimates
- Recent Accounting Pronouncements a summary and discussion of our plans for the adoption of new accounting standards relevant to us

The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in "Special Note Regarding Forward-Looking Statements," "Business Strategy," and "Risk Factors."

References herein to the term "Force Protection, Inc." refers to Force Protection, Inc. only, and references to the "Company," "Force Protection," "we," "our" or "us" refer to Force Protection, Inc. and its subsidiaries unless the context specifically indicates otherwise.

Overview

We provide survivability solutions to support the armed forces of the United States (U.S.) and its allies. We design, manufacture, test, deliver and support our blast- and ballistic-protected products to increase survivability for the users of our products. Currently, we have one segment of operations. We believe our specialty vehicles, including the Buffalo, Cougar and Ocelot, are at the forefront of blast- and ballistic-protected technology. These vehicles are designed specifically for reconnaissance and urban operations and to protect their occupants from landmines, hostile fire and improvised explosive devices (IEDs, commonly referred to as roadside bombs). We are a key provider of the U.S. military's Mine Resistant Ambush Protected (MRAP) vehicle program and have sold and delivered over 3,000 vehicles under this program. We also provide our Cougar and Buffalo mine-protected vehicles to several foreign customers, including the United Kingdom Ministry of

Defence (U.K. MoD) which has purchased three variants of our Cougar vehicle as well as a U.K.-specific variant of the Buffalo. The U.K. MoD is also

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under contract to purchase 200 Ocelots, our next-generation vehicle, with deliveries beginning in 2011. Complementing these efforts, we are developing and marketing a new vehicle platform, the Joint All-Terrain Modular Mobility Asset (JAMMA), which provides increased modularity, transportability, speed and mobility. Across all vehicle programs we have sold approximately 4,600 vehicles since 2005. Supporting our vehicle design, development and production initiatives, we develop, manufacture, test, deliver and support products and services aimed at further enhancing the survivability of our users against additional threats. In addition, we provide long-term life cycle support services for our vehicles that involve development of technical data packages, supply of spares, field and depot maintenance activities, assignment of skilled field service representatives (FSRs), and related training programs. Our services are based on establishing and maintaining long-term relationships with the U.S. government and foreign military users.

Our business is heavily influenced by the needs of the U.S. military for blast- and ballistic-protected wheeled vehicles. The U.S. Department of Defense (DoD) is our largest customer. For the past several years, the majority of our net sales have been derived from the U.S. government. We align our workforce to satisfy our business requirements.

Financial highlights for the fiscal year ended December 31, 2010 include:

- Booked over $1 billion of new orders and ended the year with approximately $562 million of funded backlog.
- Delivered 225 vehicles during the year, including 62 Buffalos, 161 Cougar and related variants, and 2 prototype Ocelots.
- Increased modernization sales by 29.6% to $302.2 million.
- Gross profit as a percentage of net sales increased 5.9% to 20.4%.
- Research and development expenses increased $3.4 million to $23.4 million.
- Generated more than $37 million of net cash from operating activities for the third consecutive year.

Outlook

The global war on terrorism, especially in Iraq and Afghanistan, has confirmed that IEDs, landmines, explosively formed projectiles and rocket-propelled grenades pose a significant threat to coalition military personnel and civilians. These weapons have been used extensively by terrorists and insurgent groups in Iraq, Afghanistan and other areas. As such, we believe the world-wide market for blast- and ballistic-protected vehicles and other survivability solutions will remain at high levels for at least the next several years. In 2009, U.S. forces began drawing down from Iraq and this continued throughout 2010. In 2010, the troop surge of U.S. forces in Afghanistan began, which required additional MRAPs to support operations. While it is currently anticipated that the troop surge will end in 2011, we expect the commitment of U.S. combat forces in Afghanistan is probable until 2014.

U.S. and international militaries are determining long-term roles for MRAPs. The future requirements for long-term life cycle logistics plans, as well as an important effort to return vehicles that come out of theater to optimal, pre-battle condition to ensure readiness for future conflicts (commonly referred to as "reset and recapitalization") is still to be determined. MRAPs can be placed into permanent military organizations for convoy security, route clearance, explosive ordnance disposal and casualty evacuation, or be placed into prepositioned storage roles for regional response, or be sold to foreign military customers.

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Our fiscal 2011 outlook is based on the following market assumptions and expectations:

- A continued high-level of operational tempo in Afghanistan, which necessitates continued modernization of our vehicles and an ongoing requirement for our FSRs resourced to support the sustainment and maintenance of units in that theater,
- Our current customers are expected to develop modernization and sustainment plans for our fielded fleet of vehicles and we will have to compete for the spares and sustainment support business for our fielded fleet of vehicles,
- Approximately three-fourths of our funded backlog as of December 31, 2010, is expected to be recognized as revenue,
- While our international business is growing, current budget constraints could impact the timing of future orders,
- Certain challenges with the expansion of our customers, products and services. We will continue to try to capture contract awards for our vehicles, products and services in an evolving and competitive marketplace,
- Establishing long-term programs to include upgrades, remanufacture, and sustainment for our fleet of vehicles, and then expanding this capability to sustain MRAP vehicles of other original equipment manufacturers,
- Investing in research and development in relation to new products and services to bring to market, and
- Rationalizing our cost structure to match our sales and backlog.

Strategic Outlook

Our business strategy is focused on increasing shareholder value by providing survivability solutions, products and services that are responsive, innovative, high-quality and affordable. We intend to maintain and expand our current business as a leading supplier of survivability solutions, including protected vehicles, total life cycle support and other services, to the U.S. DoD, other U.S. government agencies, foreign governments, and domestic and international commercial customers. Our strategy is focused on growing balanced diverse revenues and earnings through organic growth, cost containment, and selected business acquisitions, enabling us to grow the Company. Specific components of the strategy, discussed in greater detail in Item 1, *Business,* include the following:

- Perform favorably on contracts,
- Capitalize on our current business and grow sales organically,
- Invest in research and development,
- Diversify through selected acquisitions, joint ventures, teaming agreements, and
- Continuously improve our cost structure.

As discussed in Item 9A, *Controls and Procedures*, in Part II of this Annual Report on Form 10-K, we have effective controls in place as of December 31, 2010. We will continue to devote our resources, in an amount we believe to be appropriate, to maintain these effective internal controls over our financial reporting and disclosures.

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Results of Operations

The following discussion and analysis is based on our consolidated statements of operations, which reflect our results of operations for the years ended December 31, 2010, 2009 and 2008, as prepared in accordance with generally accepted accounting principles in the United States of America (GAAP).

The following tables present our vehicle sales and our results of operations for the years ended December 31, 2010, 2009 and 2008, as well as the percentage changes from year to year:

Units Sold	For the year ended December 31, 2010	2009	2008	Percentage Change 2010 vs. 2009	2009 vs. 2008
Buffalo	62	123	81	-50%	52%
Cougar MRAP (Competitive)*		9	1,724	n/m	-99%
Mastiff	87	24	180	263%	-87%
Ridgback	12	83	68	-86%	22%
Wolfhound	28	98		-71%	n/m
Cougar (all other variants)	34	37	14	-8%	164%
Cheetah		5		n/m	n/m
Ocelot	2			n/m	n/m
Total	225	379	2,067	-41%	-82%

n/m not meaningful

* includes 905 vehicles produced by General Dynamic Land Systems (GDLS) for the year ended December 31, 2008 under the GDLS Subcontract.

(in thousands, except percentages)	For the year ended December 31, 2010	2009	2008	Percentage Change 2010 vs. 2009	2009 vs. 2008
Net sales	$ 655,973	$ 977,051	$ 1,326,331	-33%	-26%
Cost of sales	522,241	835,555	1,149,670	-37%	-27%
Gross profit	133,732	141,496	176,661	-5%	-20%
General and administrative expenses	86,950	78,052	93,950	11%	-17%
Research and development expenses	23,365	20,100	14,259	16%	41%
Operating income	23,417	43,344	68,452	-46%	-37%
Other income, net	398	645	1,463	-38%	-56%
Interest expense, net	(293)	(101)	(332)	190%	-70%
Income before income tax expense	23,522	43,888	69,583	-46%	-37%
Income tax expense	(8,309)	(14,428)	(22,664)	-42%	-36%
Net income	$ 15,213	$ 29,460	$ 46,919	-48%	-37%

Results of Operations for the Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009

Units sold

The decrease in vehicles sold in 2010 as compared to 2009 is primarily due to the reduced amount of Buffalo vehicles sold in 2010 from the 2009 record high level as well as a reduction in sales of our Wolfhound and Ridgback vehicles, partially offset with an increase in sales of our Mastiff vehicle.

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Net sales

The $321.1 million decrease in net sales for the year ended December 31, 2010 compared with the year ended December 31, 2009 is attributable to a decrease in vehicle sales volume ($108.3 million) and a decrease in sales of spares and sustainment ($281.8 million), which includes FSRs, training, ILAV subcontractor revenues and technical publications. The spares and sustainment sales decreased in 2010 as compared to 2009 due to the current demand slowing for spares as large supplies of initial spares procurement with the initial vehicle deliveries are currently being consumed. This decrease was partially offset with an increase in modernization sales that was mostly due to higher service revenue generated from the installation of modernization kits in Kuwait to upgrade Cougar vehicles. Sales of modernization hardware were relatively flat in 2010 compared to 2009, as a decrease in deliveries of independent suspension kits was offset by sales of new modernization products in 2010, including enhanced fire extinguishment systems, improved seating systems and increased power generation kits.

The mix of vehicles, modernization, and spares and sustainment sales are set forth in the following table:

	For the year ended December 31,		
(in thousands, except percentages)	**2010**	**2009**	**Percentage Change**
Buffalo	$ 63,572	$ 123,585	-49%
Cougar MRAP (Competitive)		6,768	n/m
Mastiff	44,987	11,388	295%
Ridgback	5,597	35,837	-84%
Wolfhound	13,332	50,173	-73%
Cougar (all other variants)	24,542	30,648	-20%
Cheetah		3,362	n/m
Ocelot	1,462		n/m
Modernization	302,198	233,189	30%
Spares and sustainment	200,283	482,101	-58%
Total	$ 655,973	$ 977,051	-33%

n/m not meaningful

Cost of sales and Gross profit

	For the year ended December 31,	
(in thousands, except percentages)	**2010**	**2009**
Cost of sales	$ 522,241	$ 835,555
Gross profit	$ 133,732	$ 141,496
Gross profit as a percentage of net sales	20.4%	14.5%

The gross profit as a percentage of net sales increased by 5.9 percentage points for the year ended December 31, 2010 compared with the year ended December 31, 2009. The increase was mostly attributable to: (a) higher negotiated fees and improved cost controls on certain contracts during 2010, (b) mix of sales with higher margins during 2010, and (c) lower 2009 margins due to the Cheetah-related expenses, which consisted of a $19.3 million charge to reduce these vehicles to their net realizable value and a $5.0 million engineering charge on these Cheetah vehicles, both of which were incurred in 2009.

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General and administrative expenses

(in thousands, except percentages)	For the year ended December 31, 2010	2009
General and administrative expenses	$ 86,950	$ 78,052
As a percentage of net sales	13.3%	8.0%

General and administrative expenses increased $8.9 million for the year ended December 31, 2010 compared with the year ended December 31, 2009. This increase is primarily due to the $8.5 million charge for the estimated settlement cost of the federal shareholder class and derivative actions. See Note 12, *Commitments and Contingencies*, in the accompanying consolidated financial statements. Additionally, the increase was due to increased costs for our European operations ($3.0 million), business development ($3.0 million), strategy ($3.2 million) and depreciation ($1.4 million). These costs were partially offset by the 2006 re-audit costs incurred during 2009 ($3.2 million), the impairment for certain custom machines incurred during 2009 ($0.7 million), and lower legal fees ($1.5 million), lower audit fees ($1.1 million) and lower consulting fees ($4.3 million) for 2010 as compared to 2009. All other general and administrative expenses, net, increased $0.6 million for 2010 as compared to 2009.

Research and development expenses

(in thousands, except percentages)	For the year ended December 31, 2010	2009
Research and development expenses	$ 23,365	$ 20,100
As a percentage of net sales	3.6%	2.1%

Research and development expenses increased by $3.3 million for the year ended December 31, 2010 as compared with the year ended December 31, 2009. The increase was primarily due to an increased level of expenditures in 2010 as compared to 2009 on the Ocelot ($2.3 million), the JAMMA ($1.8 million), and other vehicle development programs, survivability enhancements for currently fielded vehicles and armor development activities. These increases were partially offset by the 2009 expenditures on Cheetah, which did not recur in 2010.

Other income, net

(in thousands, except percentages)	For the year ended December 31, 2010	2009
Other income, net	$ 398	$ 645
As a percentage of net sales	0.1%	0.1%

Other income decreased by approximately $0.2 million as of December 31, 2010 compared to December 31, 2009 primarily as a result of reduced earnings of our IST joint venture, which was established during 2009. Other income also includes items such as interest income and foreign currency gains and losses, which were relatively flat year over year.

Interest expense, net

(in thousands, except percentages)	For the year ended December 31, 2010	2009
Interest expense, net	$ 293	$ 101
As a percentage of net sales	0.0%	0.0%

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Interest expense increased approximately $0.2 million for the year ended December 31, 2010 as compared with the year ended December 31, 2009, primarily due to higher fees related to the unused line of credit and amortization of loan renewal fees.

Income tax expense

(in thousands, except percentages)	For the year ended December 31, 2010	2009
Income tax expense	$ 8,309	$ 14,428
As a percentage of net sales	1.3%	1.5%

We recorded lower income tax expense for the year ended December 31, 2010 as a result of the decrease in our net sales and profitability compared to the year ended December 31, 2009. The effective income tax rates for the years ended December 31, 2010 and 2009 were 35.32% and 32.87%, respectively. See Note 10, *Income Taxes,* in the accompanying consolidated financial statements.

Net income

(in thousands, except per share amounts)	For the year ended December 31, 2010	2009
Net income	$ 15,213	$ 29,460
Diluted earnings per share	$ 0.22	$ 0.43

Net income for the year ended December 31, 2010 decreased over 2009 primarily due to a decrease in our revenue, combined with the increases in general and administrative expenses and research and development expenses as discussed above.

Backlog

The following table sets forth the number of vehicles included in our backlog as of December 31, 2010 and 2009. The backlog shown in the following table is "funded" backlog, meaning that it reflects vehicles for which we have received orders and for which funding has been appropriated and authorized for expenditure by the applicable agency. We cannot assure you that we will deliver or sell all of the vehicles included in our backlog. See Item 1A, *Risk Factors* in Part I of this Annual Report on Form 10-K.

	Vehicle Funded Backlog as of December 31, 2010	2009
Buffalo	59	56
Mastiff	11	
Ridgback	8	
Cougar (all other variants)	3	4
Ocelot	202	
Total	283	60

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As of December 31, 2010, we had approximately $562 million in total funded backlog for all our vehicles, products and services, as compared to approximately $199 million as of December 31, 2009. During 2011, we expect to recognize revenue for approximately three-fourths of the $562 million of funded backlog as of December 31, 2010.

Results of Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Units sold

The decrease in vehicles sold in 2009 compared to 2008 is primarily due to the completion of the sole source and competitive contracts awarded to us under the MRAP program during 2008. The vehicles sold pursuant to our MRAP Competitive Contract represented 9 vehicles, or 2%, of the vehicles sold in 2009 compared to 1,724 or 83% of the vehicles sold in 2008.

Net sales

The decrease in net sales for the year ended December 31, 2009 compared with the year ended December 31, 2008 is attributable to a decrease in the volume of vehicle deliveries, partially offset by an increase in sales of spares and sustainment, which includes FSRs, training, ILAV subcontractor revenues and technical publications. Modernization includes the supply and installation of independent suspension kits for our Cougars. Revenue in 2008 also included sales pursuant our arrangement with GDLS, which had minimal impact on our margin.

The mix of vehicles, modernization, and spares and sustainment sales are set forth in the following table:

	For the year ended December 31,		
(in thousands, except percentages)	**2009**	**2008**	**Percentage Change**
Buffalo	$ 123,585	$ 57,034	117%
Cougar MRAP (Competitive)	6,768	903,192	-99%
Mastiff	11,388	74,885	-85%
Ridgback	35,837	25,699	39%
Wolfhound	50,173		n/m
Cougar (all other variants)	30,648	11,843	159%
Cheetah	3,362		n/m
Modernization	233,189		n/m
Spares and sustainment	482,101	253,678	90.0%
Total	$ 977,051	$ 1,326,331	-26%

n/m not meaningful

Cost of sales and Gross profit

	For the year ended December 31,	
(in thousands, except percentages)	**2009**	**2008**
Cost of sales	$ 835,555	$ 1,149,670
Gross profit	$ 141,496	$ 176,661
Gross profit as a percentage of net sales	14.5%	13.3%

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The gross profit as a percentage of net sales increased by 1.2 percentage points for the year ended December 31, 2009 compared with the year ended December 31, 2008. The increase was primarily due to the absence of GDLS vehicle sales in 2009, for which we recognized minimal gross profit in 2008. The revenue on vehicles produced by GDLS totaled $479.5 million for the year ended December 31, 2008. There were no vehicles produced by GDLS under the MRAP Subcontract for the year ended December 31, 2009. The increase was partially offset by an average price decrease for Cougar MRAP vehicles delivered in 2009, $19.3 million of Cheetah expenses ($18.2 million of inventory and $1.1 million of other associated costs) incurred in 2009, $5.0 million of engineering expenses on the Cheetah incurred in 2009 and manufacturing costs associated with fewer vehicles produced in 2009.

General and administrative expenses

(in thousands, except percentages)	For the year ended December 31, 2009	2008
General and administrative expenses	$ 78,052	$ 93,950
As a percentage of net sales	8.0%	7.1%

General and administrative expenses decreased $15.9 million for the year ended December 31, 2009 compared with the year ended December 31, 2008. This decrease is primarily due to a $4.9 million impairment charge for certain Roxboro, North Carolina assets in 2008, the $1.5 million contribution to the Medical University of South Carolina Foundation for brain trauma research in 2008 and a decrease in legal ($2.1 million) and accounting ($13.5 million) fees. These decreases were partially offset by $3.2 million costs to re-audit our 2006 financial statements, a $0.7 million impairment charge for certain custom machines, which both occurred during 2009, and a $1.9 million increase in advertising and marketing costs.

Research and development expenses

(in thousands, except percentages)	For the year ended December 31, 2009	2008
Research and development expenses	$ 20,100	$ 14,259
As a percentage of net sales	2.1%	1.1%

Research and development expenses increased by approximately $5.8 million for the year ended December 31, 2009 as compared with the year ended December 31, 2008. The increase was primarily due to an increased level of expenditures on the Ocelot ($5.0 million) in 2009.

Other income, net

(in thousands, except percentages)	For the year ended December 31, 2009	2008
Other income, net	$ 645	$ 1,463
As a percentage of net sales	0.1%	0.1%

Other income decreased approximately $0.8 million for the year ended December 31, 2009 as compared with the year ended December 31, 2008, primarily due to lower interest income as a result of lower interest rates on cash investments, partially offset with a $0.2 million gain on our IST joint venture, which was established during 2009.

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Interest expense, net

(in thousands, except percentages)	For the year ended December 31, 2009	2008
Interest expense, net	$ 101	$ 332
As a percentage of net sales	0.0%	0.0%

Interest expense decreased $0.2 million for the year ended December 31, 2009 as compared with the year ended December 31, 2008, primarily due to lower costs related to the refinancing of the Company's line of credit.

Income tax expense

(in thousands, except percentages)	For the year ended December 31, 2009	2008
Income tax expense	$ 14,428	$ 22,664
As a percentage of net sales	1.5%	1.7%

We recorded lower income tax expense for the year ended December 31, 2009 as a result of the decrease in our net sales and profitability compared to the year ended December 31, 2008. The effective income tax rates for the years ended December 31, 2009 and 2008 were 32.87% and 32.57%, respectively. See Note 10, *Income Taxes,* in the accompanying consolidated financial statements.

Net income

(in thousands, except per share amounts)	For the year ended December 31, 2009	2008
Net income	$ 29,460	$ 46,919
Diluted earnings per share	$ 0.43	$ 0.69

Net income for the year ended December 31, 2009 decreased over 2008 primarily due to a decrease in our revenue and the $19.3 million Cheetah charge that we incurred during the third quarter of 2009 relating to the write-down of inventory ($18.2 million) and associated costs ($1.1 million).

Liquidity and Capital Resources

Our liquidity and available capital resources are impacted by operating, financing and investing activities. Our principal sources of liquidity are cash on hand and cash from operations, primarily from the U.S. government, including Foreign Military Sales (FMS).

Sources and Uses of Cash

One of our primary sources of funding is cash flows from operations activities. Over the past three years, our funds were used primarily to fund working capital requirements and to make capital

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expenditures. The following chart shows the cash flows provided by or used in operating, investing, and financing activities for 2010, 2009 and 2008:

	For the year ended December 31,		
(in thousands)	2010	2009	2008
Net cash provided by operating activities	$ 37,417	$ 49,521	$ 37,031
Net cash used in investing activities	(34,348)	(13,384)	(16,318)
Net cash (used in) provided by financing activities	(170)	147	(709)
Effect of foreign currency rate changes on cash	(188)	(31)	
Increase in cash and cash equivalents	$ 2,711	$ 36,253	$ 20,004

We ended 2010 with $150.0 million of cash and cash equivalents, an increase from $147.3 million at the end of 2009 and an increase from $111.0 million at the end of 2008.

Cash Flow from Operating Activities

Cash provided by operating activities decreased by $12.1 million during the year ended December 31, 2010 compared to 2009. Below are the significant changes in working capital from December 31, 2009 to December 31, 2010:

Increases to *Cash Flows from Operating Activities*:

A decrease in accounts receivable of $9.8 million resulting primarily from lower net sales in the fourth quarter of 2010 as compared to the fourth quarter of 2009,

An increase in accounts payable of $7.0 million primarily resulting from (a) increased obligations at December 31, 2010 relating to modernization, including kit part purchases of enhanced fire extinguishment and seat systems, and (b) the timing of purchases and related payments, and

An increase in advance payments on contracts of $4.7 million primarily from an advance payment from IST for Mastiff vehicles in-transit to the customer as of December 31, 2010.

Decreases to *Cash Flows from Operating Activities*:

a net increase in inventories of $20.8 million resulting primarily from the timing of work in process and finished goods, which consisted mostly of Mastiff vehicles in-transit to IST as well as completed Buffalo vehicles and modernization kits that were not accepted by the customer until 2011, and

a decrease in the amount due to the United States government of $15.8 million, primarily due to a $17.7 million payment to the U.S. government for the Ridgback definitization settlement during 2010.

The majority of our cash receipts are from the U.S. government and other foreign governments, and therefore the risk of default on payment of our accounts receivable as of December 31, 2010 is very low. However, the continued credit crisis and related turmoil in the global financial markets may have an impact on defense spending by the U.S. and other governments in the future.

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Cash provided by operating activities increased by $12.5 million during the year ended December 31, 2009 compared to 2008. Below are the significant changes in working capital from December 31, 2008 to December 31, 2009:

Increases to *Cash Flows from Operating Activities*:

- an increase in accounts payable of $38.8 million primarily resulting from (a) increased obligations at December 31, 2009 relating to ISS program procurement, including kit part purchases and system installations in Kuwait, and (b) the timing of purchases and related payments.

Decreases to *Cash Flows from Operating Activities*:

- an increase in accounts receivable of $44.3 million resulting primarily from (a) an increase in our earned and unbilled accounts receivable balance due to a significant increase of "not-to-exceed" undefinitized contracts in 2009, whereby we cannot fully bill until the contracts are definitized although the products have been delivered, and (b) higher net sales in the fourth quarter of 2009 as compared to the fourth quarter of 2008,
- a net increase in inventories of $6.3 million (excluding inventory cost write-downs to estimated net realizable value) resulting primarily from the timing of raw material purchases,
- a decrease in the amount due to the United States government of $2.1 million, primarily due to approximately $29 million of payments for definitization settlements during 2009, partially offset by increased definitization reserve requirements for vehicles sold under our FMS contracts and MRAP-related spare parts sales, and
- a net increase of $1.1 million in the other components of working capital, excluding cash.

Cash Flow from Investing Activities

Cash used in investing activities increased by $21.0 million during 2010 compared with 2009 due to $4.9 million of increased capital expenditures and $16.1 million of other changes.

Cash used in investing activities decreased by $2.9 million during 2009 compared with 2008 due to $5.0 million of reduced capital expenditures, partially offset by a $2.1 million investment in IST, our joint venture with NP Aerospace Limited.

Cash Flow from Financing Activities

Cash used in financing activities increased during 2010 compared with 2009 primarily due to changes in the realized income tax effect from stock transactions and stock option exercises. During the years ended December 31, 2010 and 2009, we did not issue common stock (except for exercised employee options and vested restricted stock) or debt to fund business activities.

Effect of foreign currency rate changes on cash

The amount reported as the *Effect of foreign currency rate changes on cash* relates to foreign currency translation reported in connection with operations of our U.K. subsidiary and IST joint venture initiated in 2009.

Current Liquidity and Capital Resources

Our cash and cash equivalents as of December 31, 2010 were held for working capital purposes and were invested primarily in short-term U.S. Treasury bills and money market funds. We do not enter into investments for trading or speculative purposes.

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During 2008, we expended approximately $16.3 million to complete the expansion of our manufacturing capability and capacity and to upgrade our information technology infrastructure. We did not have any significant capital expenditures for manufacturing during 2010 or 2009.

During 2010, capital expenditures were $16.2 million, primarily due to outlays made for a corporate office building and associated land, demonstration vehicles, Ocelot tooling, certain leasehold improvements and computer equipment and software. During 2009, capital expenditures were $11.2 million, mostly due to upgrades of our information technology infrastructure as well as leasehold improvements. We do not expect any significant changes to capital expenditures in 2011 as compared to 2010.

The amount of capital that we will require depends on several factors, including without limitation, the extent and timing of sales of our products, performance-based payments, inventory costs, costs of raw materials and components, labor costs, costs of improving our financial and accounting systems, the timing and costs associated with the expansion of our manufacturing, development, engineering and customer support capabilities, the timing and cost of our product development and enhancement activities and our operating results. We currently estimate that our cash flow will be sufficient to meet our presently budgeted capital expenditures and our other presently anticipated cash needs for the year ending December 31, 2011.

In addition, we have available to us a $40 million revolving line of credit, which allows us to designate up to $5.0 million for letters of credit against this line of credit. There were no borrowings outstanding under the facility as of December 31, 2009 or December 31, 2010. However, on July 23, 2010, we obtained a letter of credit in the amount $3.3 million Australian dollars for the performance of our obligations under a contract for the Protected Mobility Vehicle-Light program (Land 121). This letter of credit has lowered the availability under our line of credit to approximately $36.6 million as of December 31, 2010. Borrowings under the line of credit bear a floating interest rate per annum on any principal borrowings applicable to the LIBOR rate plus a spread. The bank's obligation to make loans under the line of credit is subject to, among other things, our compliance with various covenants to include a maximum leverage ratio. As of December 31, 2010, we were in compliance with all of our revolving line of credit covenants. Our line of credit expires on April 30, 2012. After that time, we expect that we may need to obtain additional sources of capital, which may include borrowings or the issuance of debt or equity securities, including common stock, and there can be no assurance that such financing will be available to us when we need it or, if available, that the terms of any such financing will be satisfactory to us and not dilutive to our shareholders. Any failure to obtain necessary capital as and when required could have a material adverse effect on our business, prospects, financial position, results of operations or cash flows.

Off-Balance Sheet Arrangements

In accordance with the definition under SEC rules, the following qualify as off-balance sheet arrangements:

- any obligation under certain guarantees or contracts,
- a retained or contingent interest in assets transferred to an unconsolidated entity or similar entity or similar arrangement that serves as credit, liquidity, or market risk support to that entity for such assets,
- any obligation under certain derivative instruments, and
- any obligation under a material variable interest held by the registrant in an unconsolidated entity that provides financing, liquidity, market risk, or credit risk support to the registrant, or engages in leasing, hedging, or research and development services with the registrant.

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The following discussion addresses each of the above items for the Company.

As of December 31, 2010, we do not have any obligation under certain guarantees or contracts as defined above.

As of December 31, 2010, we do not have any retained or contingent interest in assets as defined above.

As of December 31, 2010, we do not hold derivative financial instruments, as defined by FASB Accounting Standards Codification (ASC) Topic 815, "*Derivatives and Hedging*."

As of December 31, 2010, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (SPEs), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 31, 2010 and 2009, we were not involved in any unconsolidated SPE transactions.

Contractual Obligations

Achieving optimal returns on cash often involves making long-term commitments. SEC regulations require that we present our contractual obligations, and we have done so in the table that follows. However, our future cash flow prospects cannot reasonably be assessed based on such obligations, as the most significant factor affecting our future cash flows is our ability to earn and collect cash from our customers. Future cash outflows, whether they are contractual obligations or not, will vary based on our future needs. While some such outflows are completely fixed (for example, commitments to repay principal and interest on fixed-rate borrowings), most will depend on future events (for example, payments to subcontractors under long-term contracts). Further, normal operations involve significant expenditures that are not based on "commitments" (for example, amounts paid for income taxes or for payroll).

Our consolidated contractual obligations as of December 31, 2010, are as follows:

(in thousands)	Total	2011	2012 2013	2014 2015	2016 and Thereafter
Operating lease obligations[(a)(b)]	$ 9,366	$ 3,102	$ 5,025	$ 1,239	$
Purchase obligations[(b)(c)]	155,137	147,219	7,918		
Total[(d)]	$ 164,503	$ 150,321	$ 12,943	$ 1,239	$

(a) We lease most of our facilities as well as other property and equipment under operating leases in the normal course of business. Some of our facility leases contain escalation clauses. The minimum lease payments do not include contingent rental expense. Some lease agreements provide us with the option to renew the lease or purchase the leased property. Our future operating lease obligations would change if we exercised these renewal options and if we entered into additional operating lease agreements. For more information, see Note 5, *Property and Equipment,* to our accompanying consolidated financial statements.

(b) Future operating lease obligations and purchase obligations are not recognized in our consolidated balance sheets.

(c) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on Force Protection and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.

(d) Because our future cash outflows are uncertain, the following liabilities are excluded from the table above: workers' compensation risks, deferred income taxes, unrecognized tax benefits, deferred compensation and our warranty reserve.

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Dividends

We have never paid or declared any cash dividends on our common stock. We currently intend to retain earnings, if any, to finance the growth and development of our business, and we do not expect to pay any cash dividends on our common stock in the foreseeable future. Payment of future dividends, if any, will be at the discretion of the Board of Directors and will depend on our financial condition, results of operations, capital requirements, restrictions contained in current or future financing instruments, and other factors the board deems relevant.

Critical Accounting Policies and Estimates

Our discussion and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements, which have been prepared in accordance with GAAP. In connection with the preparation of our consolidated financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors we believe to be relevant at the time we prepared our consolidated financial statements. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but are not limited to: (1) revenue recognition, (2) allowance for doubtful accounts, (3) definitization on contracts, (4) inventory costs and reserves, (5) asset impairments, (6) depreciable lives of assets, (7) economic lives and fair value of leased assets, (8) income tax reserves and valuation allowances, (9) fair value of stock options and restricted stock, (10) allocation of cost of sales and general and administrative expenses, and (11) litigation reserves. Future events and their effects cannot be predicted with certainty, and accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. Actual results could differ from the estimates we have used.

Our significant accounting policies are discussed in Note 1, *Summary of Significant Accounting Policies,* to our accompanying consolidated financial statements. We believe the following accounting policies are the most critical to aid in fully understanding and evaluating our reported financial results, as they require management to make difficult, subjective or complex judgments, and to make estimates about the effect of matters that are inherently uncertain. We have reviewed these critical accounting policies and related disclosures with the Audit Committee of our Board of Directors.

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Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
Inventories		
We state our inventories at the lower of cost or market value and net of the cost of obsolete items.	The determination of inventory valuation reserves requires management to make estimates and judgments on the future salability of inventories. Valuation reserves for obsolete and slow-moving inventory are estimated by comparing the inventory levels of individual parts to both future sales forecasts or production requirements and historical usage rates in order to identify inventory for which the resale value or replacement value is less than the inventoriable cost. Other factors that management considers in determining these reserves include whether individual inventory parts meet current specifications and can be substituted for a part currently being sold or used as a service part, overall market conditions, and other inventory management initiatives.	Our estimates of future product demand may prove to be inaccurate, in which case we may have understated or overstated the provision required for obsolete inventories. In the future, if our inventories are determined to be overvalued, we would be required to recognize such costs in our cost of sales at the time of such determination. Likewise, if our inventories are determined to be undervalued, we may have over-reported our costs of sales in previous periods and would be required to recognize such additional operating income at the time of sale.

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Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
Income taxes		
We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities. They are also recorded with respect to net operating losses and other tax attribute carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the years in which temporary differences are expected to be recovered or settled. Valuation allowances are established when it is more likely than not that deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income of the period that includes the enactment date. In addition, we establish reserves for tax contingencies in accordance with ASC Topic 740, "*Income Taxes*."	A high degree of judgment is required to determine if, and the extent to which, valuation allowances should be recorded against deferred tax assets. In 2009, it was determined that a valuation allowance was necessary for years ending December 31, 2007, 2008 and 2009 due to the inclusion of South Carolina state tax credits as a deferred tax asset. It is anticipated that these credits may not be fully utilized due to a low apportionment factor in the state. The valuation allowance for previous years had not been recorded in those years as the related deferred tax asset had not yet been booked. Contingent tax liabilities are based on our assessment of the likelihood that we have incurred a liability. Such liabilities are reviewed based on recent changes in tax laws and regulations, including judicial rulings.	Although we believe that our approach to estimates and judgments as described herein is reasonable, actual results could differ and we may be exposed to increases or decreases in income taxes that could be material.

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Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
Assessment of Loss Contingencies		
We have legal and other contingencies, including product warranties and contract price definitization, which could result in significant losses upon the ultimate resolution of such contingencies.	We have provided for losses in situations where we have concluded that it is probable that a loss has been or will be incurred and the amount of the loss is reasonably estimable. A significant amount of judgment is involved in determining whether a loss is probable and reasonably estimable due to the uncertainty involved in determining the likelihood of future events and estimating the financial statement impact of such events.	If further developments or resolution of a contingent matter are not consistent with our assumptions and judgments, we may need to recognize a significant charge in a future period related to an existing contingency.

Recent Accounting Pronouncements

See Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements for a description of the new accounting standards that are applicable to us.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Prices

We are subject to market risk from changes in commodity prices primarily on long-term fixed-price contracts. As a result, if the cost of our raw material increases, our profitability, if any, could decrease. Historically, we have not entered into any material commodity hedging contracts but we may do so in the future as circumstances warrant. As of December 31, 2010 and 2009, we did not have any derivative financial instruments outstanding related to commodity price risk.

Foreign Currency

Our foreign currency exchange rate risk relates to receipts from customers, payments to suppliers, and inter-company transactions denominated in foreign currencies. We may periodically enter into derivative financial instruments, principally foreign currency forward purchase and sale contracts. These instruments are designed to minimize our risk by fixing, or limiting the adverse impact on, the amount of firmly committed and forecasted foreign currency denominated receipts, payments, and inter-company transactions. We do not enter into derivative financial instruments for speculative purposes. As of December 31, 2010 and 2009, we did not have any derivative financial instruments outstanding related to foreign currency risk.

Interest Rates

Our current financing arrangement is at a variable rate and is subject to interest rate risk. As of December 31, 2010 and 2009, we did not have any borrowings under the arrangement, and as a result, we are not directly at risk of interest rate fluctuations. As our financing needs change in the future, interest rate risk may become a more significant issue for us.

Investments

Our investment policy allows for the purchase of U.S. Treasury Bills and investment-grade money market funds with maturities of less than 90 days. We may also maintain amounts on deposits with various financial institutions, which may at times, exceed insured limits. As of December 31, 2010 and 2009, we did not have material gains or losses due to changes in interest rates or market values.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Management's Responsibility Report

Force Protection's management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and other information used in this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include, where appropriate, estimates based on the best judgment of management. Financial and operating data elsewhere in the Annual Report are consistent with that contained in the accompanying consolidated financial statements.

Force Protection's policy is to maintain systems of controls over financial reporting and disclosure controls and procedures. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and Force Protection's assets are adequately accounted for and safeguarded. The Board of Directors oversees Force Protection's systems of controls over financial reporting and disclosure controls and procedures through its Audit Committee, which is comprised of directors who are not employees. The Audit Committee meets regularly with representatives of the Company's independent registered public accounting firm and management, including internal audit staff, to satisfy themselves that Force Protection's policy is being followed. The Audit Committee has engaged Grant Thornton LLP as the independent registered public accounting firm.

/s/ MICHAEL MOODY	/s/ CHARLES MATHIS
MICHAEL MOODY	**CHARLES MATHIS**
Chairman, Chief Executive Officer and President	*Chief Financial Officer*

March 9, 2011

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Report of Independent Registered Certified Public Accountants

Board of Directors and Shareholders
Force Protection, Inc.:

We have audited the accompanying consolidated balance sheets of **Force Protection, Inc.** (a Nevada corporation) and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial consolidated statements referred to above present fairly, in all material respects, the financial position of Force Protection, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Force Protection, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 9, 2011, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Grant Thornton LLP

Columbia, South Carolina
March 9, 2011

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Report of Independent Registered Certified Public Accountants

Board of Directors and Shareholders
Force Protection, Inc.:

We have audited **Force Protection, Inc.** (a Nevada corporation) and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Force Protection, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows and comprehensive income for each the three years in the period ended December 31, 2010, and our report dated March 9, 2011 expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP

Columbia, South Carolina
March 9, 2011

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Force Protection, Inc. and Subsidiaries

Consolidated Balance Sheets

	As of December 31, 2010	2009
	(In Thousands, Except Share Data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 149,965	$ 147,254
Accounts receivable, net of allowance for doubtful accounts of none in 2010 and 2009	124,831	143,480
Inventories	90,110	74,075
Deferred income tax assets	12,336	16,235
Income taxes receivable		1,352
Other current assets	41,520	3,031
Total current assets	418,762	385,427
Property and equipment, net	60,422	58,918
Investment in unconsolidated joint ventures	2,815	2,541
Other assets	705	202
Total assets	$ 482,704	$ 447,088
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 94,593	$ 86,588
Due to United States government	1,331	25,965
Advance payments on contracts	5,875	1,164
Other current liabilities	50,943	21,044
Total current liabilities	152,742	134,761
Deferred income tax liabilities	973	1,236
Other long-term liabilities	562	
	154,277	135,997
Commitments and contingencies		
Shareholders' equity:		
Common stock, $.001 par value; 300,000,000 shares authorized; issued and outstanding 70,570,240 in 2010 and 69,786,419 in 2009	71	70
Additional paid-in capital	262,451	260,112
Accumulated other comprehensive (loss) income	(88)	129
Retained earnings	65,993	50,780
Total shareholders' equity	328,427	311,091
Total liabilities and shareholders' equity	$ 482,704	$ 447,088

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

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Force Protection, Inc. and Subsidiaries

Consolidated Statements of Operations

	For the year ended December 31,		
	2010	2009	2008
	(In Thousands, Except Share and Per Share Data)		
Net sales	$ 655,973	$ 977,051	$ 1,326,331
Cost of sales	522,241	835,555	1,149,670
Gross profit	133,732	141,496	176,661
General and administrative expenses	86,950	78,052	93,950
Research and development expenses	23,365	20,100	14,259
Operating income	23,417	43,344	68,452
Other income, net	398	645	1,463
Interest expense, net	(293)	(101)	(332)
Income before income tax expense	23,522	43,888	69,583
Income tax expense	(8,309)	(14,428)	(22,664)
Net income	$ 15,213	$ 29,460	$ 46,919
Earnings per common share:			
Basic	$ 0.22	$ 0.43	$ 0.69
Diluted	$ 0.22	$ 0.43	$ 0.69
Weighted average common shares outstanding:			
Basic	68,828	68,450	68,314
Diluted	69,786	69,066	68,393

The accompanying notes to consolidated financial statements are an integral part of these statements.

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Force Protection, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity and Comprehensive Income

(In Thousands, Except Share Data)

	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity	Comprehensive Income
Balance at December 31, 2007	68,247,648	$ 68	$ 257,160	$ (25,599)	$	$ 231,629	$ 7,652
Net income				46,919		46,919	46,919
Issuance for:							
Employee stock option exercises	31,000	Nil	46			46	
Employee and board of director stock grants	70,514	Nil	Nil				
Stock-based compensation			270			270	
Income tax effect realized from stock transactions			(537)			(537)	
Balance at December 31, 2008	68,349,162	68	256,939	21,320		278,327	46,919
Net income				29,460		29,460	29,460
Foreign currency translation adjustments, net of tax of $71					129	129	129
Issuance for:							
Employee stock option exercises	29,998	Nil	81			81	
Employee and board of director stock grants, net of shares cancelled/forfeited	1,407,259	2	(507)			(505)	
Stock-based compensation			3,393			3,393	
Income tax effect realized from stock transactions			206			206	
Balance at December 31, 2009	69,786,419	$ 70	$ 260,112	$ 50,780	$ 129	$ 311,091	$ 29,589
Net income				15,213		15,213	15,213
Foreign currency translation adjustments, net of tax benefit of $120					(217)	(217)	(217)
Issuance for:							
Employee stock option exercises	21,110	Nil	28			28	
Employee and board of director stock grants, net of shares cancelled/forfeited	762,711	1	(865)			(864)	
Stock-based compensation			3,395			3,395	
Income tax effect realized from stock transactions			(219)			(219)	
Balance at December 31, 2010	**70,570,240**	**$ 71**	**$ 262,451**	**$ 65,993**	**$ (88)**	**$ 328,427**	**$ 14,996**

The accompanying notes to consolidated financial statements are an integral part of these statements.

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Force Protection, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	For the year ended December 31,		
	2010	2009	2008
	(In Thousands)		
Cash flows from operating activities:			
Net income	$ 15,213	$ 29,460	$ 46,919
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	16,197	13,969	12,761
Deferred income tax provision (benefit)	3,358	(2,639)	3,058
Income tax effect realized from stock transactions	219	(206)	537
Stock-based compensation	2,533	2,886	270
Provision for litigation settlement	7,833		
Provision for asset impairment		748	4,947
Provision for inventory	5,864	20,700	12,269
Other	31	(4)	(114)
(Increase) decrease in assets			
Accounts receivable	9,773	(44,277)	(19,332)
Inventories	(20,773)	(6,273)	39,868
Advances to subcontractor			25,106
Income taxes receivable	1,352	(1,352)	6,565
Other current assets	(2,381)	(613)	6,064
Increase (decrease) in liabilities			
Accounts payable	7,010	38,799	(94,872)
Advance payments on contracts	4,711	(11)	(27,048)
Due to United States government	(15,758)	(2,133)	20,046
Other current liabilities	2,235	467	(13)
Total adjustments	22,204	20,061	(9,888)
Net cash provided by operating activities	37,417	49,521	37,031
Cash flows from investing activities:			
Capital expenditures	(16,168)	(11,235)	(16,318)
Purchases of marketable securities		(9,985)	
Proceeds from maturity of marketable securities		9,985	

Other	(18,180)	(2,149)	
Net cash used in investing activities	(34,348)	(13,384)	(16,318)
Cash flows from financing activities:			
Proceeds from issuance of common stock	49	80	46
Income tax effect realized from stock transactions	(219)	206	(537)
Other		(139)	(218)
Net cash (used in) provided by financing activities	(170)	147	(709)
Effect of foreign currency rate changes on cash	(188)	(31)	
Increase in cash and cash equivalents	2,711	36,253	20,004
Cash and cash equivalents at beginning of year	147,254	111,001	90,997
Cash and cash equivalents at end of year	$ 149,965	$ 147,254	$ 111,001
Supplemental cash flow information:			
Cash paid during the period for:			
Income taxes	$ 7,002	$ 16,678	$ 8,861
Interest, net of amounts capitalized	$ 253	$ 144	$ 302
Supplemental schedule of noncash investing and financing activities:			
Property and equipment additions in accounts payable	$ 818	$ 950	$ 273

The accompanying notes to consolidated financial statements are an integral part of these statements.

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Force Protection, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Organization and Description of the Business

Force Protection, Inc. provides survivability solutions to support the armed forces of the United States (U.S.) and its allies. We design, manufacture, test, deliver and support our blast- and ballistic-protected products to increase survivability for the users of our products. Currently, we have one segment of operations, our survivability solutions. We believe our specialty vehicles, including the Buffalo, Cougar and Ocelot, are at the forefront of blast- and ballistic-protected technology. These vehicles are designed specifically for reconnaissance and urban operations and to protect their occupants from landmines, hostile fire and improvised explosive devices (IEDs, commonly referred to as roadside bombs). We are a key provider of the U.S. military's Mine Resistant Ambush Protected (MRAP) vehicle program and have sold and delivered over 3,000 vehicles under this program. We also provide our Cougar and Buffalo mine-protected vehicles to several foreign customers, including the United Kingdom Ministry of Defence (U.K. MoD) which has purchased three variants of our Cougar vehicle as well as a U.K.-specific variant of the Buffalo. The U.K. MoD is also under contract to purchase 200 Ocelots, our next-generation vehicle, with deliveries beginning in 2011. Complementing these efforts, we are developing and marketing a new vehicle platform, the Joint All-Terrain Modular Mobility Asset (JAMMA), which provides increased modularity, transportability, speed and mobility. Across all vehicle programs we have sold approximately 4,600 vehicles since 2005. Supporting our vehicle design, development and production initiatives, we develop, manufacture, test, deliver and support products and services aimed at further enhancing the survivability of our users against additional threats. In addition, we provide long-term life cycle support services for our vehicles that involve development of technical data packages, supply of spares, field and depot maintenance activities, assignment of skilled field service representatives (FSRs), and related training programs. Our services are based on establishing and maintaining long-term relationships with the U.S. government and foreign military users.

References herein to "Force Protection," the "Company," "we," "our," or "us" refer to Force Protection, Inc. and its subsidiaries unless otherwise stated or indicated by context.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements of Force Protection and its subsidiaries were prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) and include the assets, liabilities, revenues, and expenses of our two wholly owned subsidiaries, Force Protection Industries, Inc. and Force Protection Technologies, Inc. We eliminate from our financial results all significant intercompany accounts and transactions.

Use of Estimates

The preparation of our consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but are not limited to: (1) revenue recognition, (2) allowance for doubtful accounts, (3) definitization on contracts, (4) inventory costs and reserves, (5) asset impairments, (6) depreciable lives of assets, (7) economic lives and fair value of leased assets, (8) income tax reserves and valuation allowances, (9) fair value of stock options and restricted stock, (10) allocation of cost of

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Force Protection, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

sales and general and administrative expenses, and (11) contingent liabilities, warranty, and litigation reserves. Future events and their effects cannot be predicted with certainty, accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluation, as considered necessary. Actual results could differ from those estimates.

Risks and Uncertainties

We are exposed to a number of risks in the normal course of our operations that could potentially affect our financial position, results of operations, and cash flows.

Customer Concentration

The majority of our revenue comes from our U.S. government contracts, including FMS, which approximated 87%, 90% and 96%, of *Net sales* for the years ended December 31, 2010, 2009 and 2008, respectively. Our accounts receivable from the U.S. government as of December 31, 2010 and 2009 was 85% of our accounts receivable at both dates.

Laws and Regulations

As a result of our U.S. DoD contracts, we are required to participate in the U.S. government contracting process, which involves extensive statutes, regulations and requirements of the U.S. government agencies and entities that govern these programs, including award, administration, funding, and performance of contracts. These statutes and regulations impose a broad range of requirements, many of which are unique to government contracting, including various procurement, import and export, federal national security, contract cost and pricing, funding, contract termination and adjustment, audit, quality, warranty and protection of classified information requirements. Our failure to comply with these regulations and requirements could result in reductions of the value of contracts, contract modifications or termination, loss of security clearance, the assessment of civil or criminal penalties and fines, the inability to win new contracts, and lead to suspension or debarment from government contracting or subcontracting for a period of time, any of which could have a material adverse effect on our financial position, results of operations and cash flows.

We are also subject to business risks associated with the defense market, including changes in budget appropriations, procurement policies, political developments both domestically and abroad, and other factors. Any material deterioration in the economic and environmental factors that impact the defense industry could have a material adverse effect on our financial position, results of operations and cash flows.

There are certain federal laws that, while not specifically directed at us as a contractor, may affect our U.S. government contracts. The Anti-Deficiency Act is one of the major laws through which Congress exercises its constitutional control of the public purse. The Anti-Deficiency Act indirectly regulates how the agency awards our contracts and pays our invoices.

Our operations also are subject to a broad range of environmental, health and safety laws and regulations in the jurisdictions in which we operate. These laws and regulations impose increasingly

Force Protection, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

stringent environmental, health and safety protection standards and permitting requirements regarding, among other things, air emissions, noise, wastewater storage, treatment and discharges, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamination and working conditions for our employees. Some environmental laws, such as the U.S. Comprehensive Environmental Response, Compensation, and Liability Act, also known as CERCLA or Superfund, and comparable state laws, impose joint and several liability for the cost of environmental remediation, natural resource damages, third-party claims, and other expenses, without regard to the fault or the legality of the original conduct, on those persons who contributed to the release of a hazardous substance into the environment.

The costs of complying with these laws and regulations, including participation in assessments and remediation of contaminated sites and installation of pollution control facilities could be significant. In addition, if we are found responsible for any hazardous contamination, we may have to pay expensive fines or penalties or perform costly clean-up. Even if we are charged, and later found not responsible for such contamination and clean-up, the costs of defending the charges could be significant.

Sources and Supply of Materials

Our products incorporate engines, transmissions, axles and a number of other components that are available only from the source or sources selected by the military. Identifying additional or replacement suppliers approved by the military for any of the numerous components used in our products may not be accomplished quickly or on commercially reasonable terms, if at all. In addition to suppliers specified by the military, we use other suppliers for certain components of our products, some of which are small businesses that are not well capitalized. In the event that we are unable to obtain required components or raw materials from our existing suppliers, and if we are unable to mitigate the impact or find an alternate supplier in a timely manner, it could have a material adverse effect on our ability to produce our vehicles. Significant interruptions in the supply of components may occur for a variety of reasons, including capacity constraints at our suppliers, competition for components with other manufacturers of vehicles, insolvency of a supplier, work stoppages at suppliers and transportation interruptions, which could involve significant additional costs and result in delays in production and product deliveries and could have a material adverse effect on our results of operations. In addition, the unavailability or scarcity of certain components or raw material could result in increased costs, which could have a material adverse effect on our financial position, results of operations and cash flows.

Some of our product components are manufactured in and supplied from foreign countries and if import tariffs or taxes increase for any reason, our cost of goods could increase. Also, our financial performance could be adversely affected by changes in the political, social and economic environment in these foreign countries. The role of the central and local governments in the economies of these foreign countries may be significant. Policies toward economic liberalization, and laws and policies affecting foreign companies, foreign investment, currency exchange rates and other matters could change, resulting in greater restrictions on our ability to do business with suppliers based in other countries. A foreign government could impose surcharges, increase tax rates, or revoke, terminate or suspend operating licenses without compensating us. In addition, the U.S. government could impose charges and taxes and could take other actions that could make it more expensive for us to obtain components from sources in other countries or could prevent us from acquiring those components or raw materials. Also, other countries, from time to time, experience instances of civil unrest and

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Force Protection, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

hostilities or confrontations may occur between the military, insurgent forces and civilians. If for these or any other reason, we are unable to obtain required components or raw materials from foreign sources as and when required, or at all, it could have a material adverse effect on our financial position, results of operations and cash flows.

Revenue Recognition

Substantially all of our revenues are earned pursuant to written contractual arrangements to design, develop, manufacture and/or modify blast- and ballistic-protected products and to provide related engineering and technical or other services according to the specifications of the buyers (customers). These contracts are generally on a fixed-price basis. We recognize revenues and earnings on fixed-production contracts, whose units are produced and delivered in a continuous or sequential process, based upon the unit's contract selling price as we deliver it and the customer's *formal acceptance* of the unit. We charge the actual unit cost to *Cost of sales*.

We define *formal acceptance* under a U.S. government contract for vehicles and spares as taking place when a representative of the U.S. government signs the U.S. Form DD250 entitled "Material Inspection and Receiving Report." Under the Federal Acquisition Regulation, a signed Form DD250 signifies contractual inspection and acceptance by the U.S. of the work performed by Force Protection. A signed Form DD250 also is the event contractually obligating the U.S. government to pay us for the approved goods or services (subject to any "definitization" contractual adjustment(s), as discussed below).

Certain of our fixed-price contracts provide for the delivery of minimal quantities or require a substantial level of development effort in relation to total contract value. For these contracts, we recognize revenue using the "cost-to-cost method" of accounting where revenues and profits are recorded based on the ratio of costs incurred to the estimate of total costs at completion.

Revenue related to technical manuals, customer data requirements, non-recurring engineering and similar items is recognized using the "cost-to-cost method" of accounting when circumstances for its use are considered appropriate in accordance with Accounting Standards Codification (ASC) Topic 605-35-25, "*Revenue Recognition Construction-Type and Production-Type Contracts*."

Under some of our contracts, we receive performance-based payments based on completion of specific milestones stipulated under the contract (for example, completion of manufacturing fabrication). We report these payments as *Advance payments on contracts* in our consolidated balance sheets until the final delivery of the products and formal acceptance by the customer as evidenced by an executed Form DD250 for U.S. government sales, or other supporting documentation for customers other than the U.S. government. As discussed above, upon customer acceptance of the products, we recognize the full sale price of the products as revenue.

We recognize revenue from other items, such as foreign and domestic user training, field support (including vehicle repairs), performing vehicle modifications, and providing test support to the U.S. government for its vehicle testing, when we meet four basic criteria: (i) persuasive evidence that a customer arrangement exists, (ii) the price is fixed or determinable, (iii) collectability is reasonably assured, and (iv) delivery of product has occurred or services have been rendered.

We negotiate contracts with our customers that may include revenue arrangements with multiple deliverables. We account for each deliverable under a contract separately. Historically, we negotiate and

Force Protection, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

sign contracts with our customers that provide a contract amount and specific terms and conditions associated with each deliverable.

Substantially all shipping and handling costs are expensed as incurred and included in *Cost of sales*.

Definitization/Due to U.S. Government

Our contracts with the U.S. government are negotiated as either a "sole source" or "open competition" bid process. A sole source process is one in which we are the sole bidder for the contract. An open competition could involve various bidders. Once a bid is accepted, the U.S. government usually expects work to commence immediately. An open competition results in a final agreed-upon contract price to which the U.S. government has agreed. A sole source process results in an agreed-upon contract with the U.S. government, subject to an adjustment process at a later date, termed the "definitization process." The definitization process commences upon awarding of a contract, whereby the U.S. government undertakes a detailed review of our costs involved in the manufacturing and delivery process. We then work with the U.S. government to determine an adequate and fair final contract price. We have the right to submit proposed prices, but they are subject to final review and approval by the contracting officer, who may require that we use different prices. Although both parties make an effort to definitize the contract as quickly as possible, the process is time consuming and can take months to complete. In addition, if an agreement is not reached as to price by a specific date, the contracting officer may unilaterally determine a price. During definitization, we are usually required to perform the contract work and make deliveries before the final contract price has been established. For this reason, as part of the original award, we bill the U.S. government at a predetermined price that is used for invoicing and accounting purposes pending final definitization.

As a result of the adjustments related to the definitization process, we recognize a liability, *Due to United States government*, or reduce our accounts receivable, if appropriate, and reduce gross sales to arrive at net sales. As of December 31, 2010 and 2009, our reserves for contracts subject to the definitization process have been determined based upon our estimate of final contract prices or subsequently negotiated settlements.

Sales Returns and Allowance for Doubtful Accounts

Historically, we have not encountered significant sales returns or uncollectible accounts receivable and we do not anticipate them in the near future. The majority of our accounts receivable are with the U.S. government and we do not maintain an allowance for doubtful accounts for those accounts due to the credit-worthiness of the U.S. government. When necessary, we maintain an allowance for doubtful accounts, which is based upon specific identification, for our non-governmental customers.

Cash and Cash Equivalents

Cash and cash equivalents includes investments that are highly liquid and have maturities of three months or less when purchased. The carrying values of cash and cash equivalents approximate their fair value due to the short-term nature of these instruments.

We maintain amounts on deposit with various financial institutions, which may at times exceed federally insured limits. However, management periodically evaluates the credit-worthiness of those institutions, and we have not experienced any losses on such deposits.

Force Protection, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

Inventories

We carry our inventories at the lower of their cost or market value. Cost is determined using the first-in, first-out (FIFO) method. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence and other factors in evaluating net realizable value.

Where there is evidence that the utility of goods, in their disposal in the ordinary course of business, will be less than cost, whether due to physical obsolescence, changes in price levels, or other causes, we recognize the difference as a loss in the current period. A write-down of inventory to the lower of cost or market creates a new cost basis that subsequently is not marked up based on changes in underlying facts and circumstances.

Property and Equipment

We report land, buildings, leasehold improvements, and machinery and equipment, including tooling and pattern equipment, at cost, net of depreciation and asset impairments, if applicable. We report assets under capital lease obligations at the lower of their fair value or the present value of the aggregate future minimum lease payments as of the beginning of the lease term. We depreciate our assets using the straight-line method over the shorter of the lease term or the estimated useful lives of the assets.

The ranges of estimated useful lives of our property and equipment are as follows:

	Years
Building and building improvements	5-29
Leasehold improvements	2-5
Machinery and equipment, including tooling and molds	3-7
Computer equipment and software	3
Furniture and fixtures	3-7
Demonstration and other vehicles	5
Manuals	5

The carrying amounts of all long-lived assets are evaluated periodically to determine if adjustment to the depreciation and amortization period or to the remaining balance is warranted. Such evaluation is based principally on the expected utilization of the long-lived assets.

Maintenance and repairs of property and equipment are expensed as incurred. We capitalize replacements and improvements that increase the estimated useful life of an asset and we capitalize interest on major construction and development projects while in progress.

We retain fully depreciated assets in property and accumulated depreciation accounts until we remove them from service. In the case of sale, retirement, or disposal, the asset cost and related accumulated depreciation balance is removed from the respective account, and the resulting net amount, less any proceeds, is included as a component of *Other income, net* in the consolidated statements of operations.

We recognize escalated rents, including any rent holidays, on a straight-line basis over the term of the lease for those lease agreements where we receive the right to control the use of the entire leased property at the beginning of the lease term.

Force Protection, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

We test for impairment of long-lived assets, including intangible assets, whenever events or changes in circumstances indicate that the carrying value of an asset or asset group (hereinafter referred to as "asset group") may not be recoverable by comparing the sum of the estimated undiscounted future cash flows expected to result from use of the asset group and its eventual disposition to the carrying value. If the sum of the estimated undiscounted future cash flows is less than the carrying value, an impairment determination is required. The amount of impairment is calculated by subtracting the fair value of the asset group from the carrying value of the asset group. An impairment charge, if any, is recognized within *Operating income*.

Intangible Assets

We amortize the cost of intangible assets over their respective estimated useful lives on a straight-line basis. The amortization periods are as follows:

	Years
Licenses	2-3
Non-compete agreement	4
Customer base	2
Special expertise	2
Weighted-average useful lives	3

Investments in and Advances to Non-consolidated Affiliates

Equity method investments are recorded at original cost and adjusted periodically to recognize (i) our proportionate share of the investees' net income or losses after the date of investment; (ii) additional contributions made and dividends or distributions received; and (iii) impairment losses resulting from adjustments to net realizable value.

We assess the potential impairment of our equity method investments annually. We determine fair value based on valuation methodologies, as appropriate, including the present value of estimated future cash flows, estimates of sales proceeds, and external appraisals. If an investment is determined to be impaired and the decline in value is other than temporary, we record a write-down.

Stock-Based Compensation

As of December 31, 2010 and 2009, Force Protection had a formal stock-based compensation plan, the Force Protection, Inc. 2008 Stock Plan (Stock Plan), which was approved by Company's shareholders in 2008. The purpose of the Stock Plan is to attract, retain and motivate officers, directors and key employees (including prospective employees), consultants and others who may perform services for Force Protection, to compensate them for their contributions to the long-term growth and profits of Force Protection and to encourage them to acquire a proprietary interest in our success.

Awards may be made under the Stock Plan in the form of any of the following, in each case in respect of common stock: (a) stock options, (b) stock appreciation rights, (c) restricted shares, (d) restricted stock units, (e) dividend equivalent rights and (f) other equity-based or equity-related awards, such as the grant or offer for sale of unrestricted shares of common stock and performance share awards and performance units settled in cash in such amounts and subject to such terms and

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Force Protection, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

conditions as the Compensation Committee may determine. Such awards may entail the transfer of actual shares of common stock to award recipients and may include awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the U.S. that the Compensation Committee determines to be consistent with the purposes of the Stock Plan and the interests of Force Protection.

As approved by shareholders, the total number of shares of common stock that may be granted under the Stock Plan is 5,200,000. Stock options granted under the Stock Plan during 2010 and 2009 have contractual terms not to exceed 10 years (or 5 years for 10% shareholders) with respect to incentive stock options and generally vest ratably over three years. Restricted Stock granted under the Stock Plan during 2010 and 2009 generally vest ratably over three years.

Force Protection measures stock-based compensation expense for all share-based awards granted based on the estimated fair value of those awards at grant date. The cost of restricted stock awards is determined using the fair market value of our common stock on the date of grant. The fair values of stock option awards are estimated using a Black-Scholes valuation model. Options and restricted stock grants that are subject solely to service vesting requirements are expensed on a straight-line basis over the applicable vesting period. Restricted stock grants subject to performance and service vesting criteria are expensed using the graded-vesting attribution method in accordance with ASC Topic 718, "*Compensation Stock Compensation*," over the vesting period. The compensation costs are recognized net of any estimated forfeitures. Forfeiture rates are estimated based on historical experience and adjusted in subsequent periods for any differences in actual forfeitures from those estimates. See Note 9, *Stock-Based Compensation*.

Warranty

Our sales contracts may include a warranty that our products are free from defects in material and workmanship for a period of up to one year from the acceptance date. The warranty generally does not apply to any damage or failure to perform caused by the misuse or abuse of the vehicle, combat damage, fair wear-and-tear items (brake shoes, wiper blades, etc.), or by the customer's failure to perform proper maintenance or service on the supplies. We base our warranty accruals on estimates of the expected warranty costs that incorporate historical information and forward assumptions. Warranty costs are included in *Cost of sales*.

Litigation

We accrue for loss contingencies associated with outstanding litigation, claims and assessments for which management has determined it is probable that a loss contingency exists and the amount of loss can be reasonably estimated. We accrue for professional fees and related costs to be incurred in conjunction with loss contingencies when such costs can be reasonably estimated and are significant in amount.

Research and Development

We incur costs in connection with research and development programs that are expected to contribute to future earnings, and charge such costs against income as incurred. Research and development costs consist primarily of payroll and personnel related costs, contractor fees,

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Force Protection, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

infrastructure costs, materials to assemble prototype vehicles, and administrative expenses directly related to research and development support.

Advertising Costs

We expense costs of print and other advertisements as incurred. Advertising expenses, included in *General and administrative expenses,* within the accompanying consolidated statements of operations, approximated $1.4 million in 2010, $2.5 million in 2009 and $0.6 million in 2008.

Income Taxes

We provide for income taxes using the asset and liability method. This approach recognizes the amount of federal, state, and local taxes payable or refundable for the current year, as well as deferred tax assets and liabilities for the future tax consequence of events recognized in the consolidated financial statements and income tax returns. Deferred income tax assets and liabilities are adjusted to recognize the effects of changes in tax laws or enacted tax rates. In addition, we establish reserves for tax contingencies in accordance with ASC Topic 740, "*Income Taxes*." We include interest and penalties related to federal and state income taxes, if any, as a component of *Income tax expense*.

A valuation allowance is required when it is more likely than not that some portion of the deferred tax assets will not be realized. Realization is dependent on generating sufficient future taxable income.

Force Protection and its subsidiaries file a consolidated federal income tax return. State income tax returns are filed on a separate, combined, or consolidated basis in accordance with relevant state laws and regulations.

Accumulated Comprehensive (Loss) Income

Accumulated comprehensive (loss) income was ($0.1) million and $0.1 million foreign exchange translation adjustments as of December 31, 2010 and 2009, respectively.

Earnings per Common Share

The calculation of basic earnings per common share is based on the weighted-average number of our common shares outstanding during the applicable period. The calculation for diluted earnings per common share recognizes the effect of all potential dilutive common shares that were outstanding during the respective periods, unless their impact would be anti-dilutive.

Fair Value of Financial Instruments

ASC Topic 825, "*Financial Instruments*," requires disclosures of the fair value of financial instruments. Our financial instruments include cash and cash equivalents, accounts receivable, other current assets, accounts payable, accrued liabilities and amounts due to United States government. The carrying amounts of cash and cash equivalents, accounts receivable, other current assets, accounts payable, accrued liabilities and amounts due to the United States government, approximate their fair value because of the short-term maturity and highly liquid nature of these instruments. The carrying values of our financial instruments approximate their fair value as of December 31, 2010 and 2009.

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Force Protection, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

Translation of Foreign Currencies

The functional currencies for our international operations are their respective local currencies. We translate foreign currency balances from the international business units' functional currency to the U.S. dollar at the end-of-period exchange rates, and earnings statements at the average exchange rates for each period. The resulting foreign currency translation adjustments are a component of accumulated other comprehensive income, which is included in shareholders' equity in the accompanying consolidated balance sheets. The effect of changes in foreign exchange rates on non-U.S. cash balances was not material in each of the past three years.

Recent Accounting Pronouncements

In October 2009, the FASB issued Update No. 2009-13 (ASU 2009-13), an update to Topic 605 "*Revenue Recognition*," which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. ASU 2009-13 is effective prospectively for revenue recognition arrangements entered into or materially modified beginning in fiscal years on or after June 15, 2010. Early adoption is permitted. We are currently evaluating the impact that the adoption of this guidance will have on our consolidated financial position, results of operations or cash flows, if any.

In February 2010, the FASB issued Update No. 2010-9 (ASU 2010-9), an update to Topic 855 "*Subsequent Events*," which clarified that subsequent events should be evaluated through the date the financial statements are issued. In addition, this update no longer requires a filer to disclose the date through which subsequent events have been evaluated. This guidance is effective for financial statements issued subsequent to February 26, 2010. We adopted this guidance on March 8, 2010. This guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

We have determined that all other recently issued accounting guidance will not have a material impact on our consolidated financial position, results of operations and cash flows, or do not apply to our operations.

2. Accounts Receivable

Accounts receivable consists of the following (in thousands):

	As of December 31,	
	2010	**2009**
United States government	$ 104,730	$ 122,070
Other accounts receivable	20,101	21,410
Accounts receivable, net	$ 124,831	$ 143,480

Other accounts receivable includes amounts that relate to non-government entities and the sale of excess raw materials to suppliers. Any gain or loss on the sale of excess raw materials is included in *Other income, net* in the accompanying consolidated statements of operations. As of December 31, 2010 and 2009, our accounts receivable included $53.8 million and $57.2 million, respectively, of earned and unbilled accounts receivable, of which $1.9 million and $6.4 million, respectively, is earned and unbilled

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Force Protection, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

2. Accounts Receivable (Continued)

to Integrated Survivability Technologies Limited and $51.9 million and $50.8 million, respectively, is earned and unbilled to the U.S. government. The earned and unbilled accounts receivable balances as of December 31, 2010 and December 31, 2009 are primarily due to significant amounts of "not-to-exceed" undefinitized contracts whereby we cannot fully bill until the contracts are definitized although the products have been delivered.

The following is the activity related to our allowance for doubtful accounts (in thousands):

For the year ended December 31,	Balance at Beginning of Period	Additions and Charges to Expense	Deductions and Accounts Written Off	Balance at End of Period
2010	$			$
2009	$			$
2008	$ 323		(323)	$

3. Inventories

Inventories consist of the following (in thousands):